FINANCIAL HISTORY

THE MAGAZINE OF THE MUSEUM OF AMERICAN FINANCE

She-Wolves: Marianne Spraggins' Battle for a Seat at the Table

The True Value of Hetty Green's Legacy

70 Years of the AFL-CIO

ISSUE 152 | WINTER 2025

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Marianne Spraggins poses for a photo shoot for a profile in *Black Enterprise,* 1992. See related article, page 16.

Dwight Carter

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Building on a Banner Year

Message to Members

David J. Cowen | President and CEO

By every measure, 2024 was a banner year for our Museum, with unprecedented programming and reach. We broke all of our previous records and held 50 Museum events and classes, with a total audience of more than 10,700 individuals as we further financial education and raise awareness of issues affecting people's lives. All of our events are free of charge with no barriers to entry. Our goal for 2025 is to more broadly share our assets and insights—and to enhance access to our collections through our traveling exhibit and digitization initiative—as we advance understanding of finance, the capital markets and the global economy through innovative technology.

Our Museum Finance Academy (MFA) for high school students was held virtually and offered in two time zones, and it will continue in 2025, with the top achievers earning partial scholarships. You can read on page five about the outstanding students who earned these scholarships in the Fall 2024 session of the MFA. Our annual "Retirement A to Z" series for adults launched on January 28, with nine programs offered every Tuesday at noon through March 25. These virtual programs are free to attend, but registration is required. Planning for other in-person and virtual events is currently underway, and all programs will be posted on our website at www.moaf.org/events once registration opens.

Much of the financial support for our free educational classes and public programs comes directly from our annual Gala, which this year will be held on March 6 at the Ziegfeld Ballroom in midtown Manhattan. We are thrilled to honor Dick Gephardt—former Democratic Leader, US House of Representatives—with our Whitehead Award for Distinguished Public Service and Financial Leadership. We will also honor investing legend Peter Lynch, vice chairman of Fidelity Management and Research Company, with our Lifetime Achievement Award. In addition, there will be a Special Recognition Tribute to Art Cashin (1941–2024), who served as the director of floor operations for UBS Financial Services Inc. at the New York Stock Exchange.

We are grateful to all of the companies and individuals who sponsor and attend our Gala each year. And we hope to see many of you—our members, supporters and friends—at our events in 2025. $

The Museum will honor the careers of Richard A. Gephardt, Peter S. Lynch and Arthur D. Cashin, Jr. (1941–2024) at its annual Gala on March 6.

Nine High School Students Awarded Fall 2024 MFA Merit Scholarships

The Museum of American Finance is proud to announce that nine outstanding students have received Museum Finance Academy (MFA) merit scholarships for the Fall 2024 semester. The MFA is a free five-session personal finance certificate course for 11th and 12th graders with the goal of teaching students to aspire to financial independence through developing an appreciation for savings, establishing financial goals and learning to avoid scams. The Museum offers this national program in two time zones to reach students across the country.

Nicole Leal, a 17-year-old senior at the American Sign Language and English Secondary School in Manhattan, earned the top scholarship award of $1,000. Her future plans are to enroll in college to pursue her dream of becoming a diagnostic medical sonographer. She said her most important takeaway from the MFA program was learning the benefits of long-term investing and how to manage her money.

Four second-place winners received scholarships of $500 each. They include Jonathan Altshuler, Mikhael Bondar and Farizakhon Yunusova from James Madison High School in Brooklyn, and Jed Sloan from Stuyvesant High School in Manhattan. According to Sloan, the most important thing he learned in the MFA was the power of compound interest.

"Such a simple yet meaningful idea—that by earning amounts of interest seemingly meager on their own, one can accumulate meaningful amounts of capital—led me to reevaluate my spending habits and my perception of wealth generation," he said.

Four third-place scholarships were also awarded for the Fall MFA. The recipients included Layan Alwazzan from Melissa High School in Melissa, Texas; Clara Camano from New World High School in the Bronx; Charlotte Ramos from James Madison High School in Brooklyn; and Abhirup Singh from Benjamin N. Cardozo High School in Queens.

"The lessons I learned in this five-week course will stay with me and lay the groundwork for a prosperous life," said Ramos. "It has contributed much to my appreciation for understanding financial literacy and it will continue to fuel this passion of mine."

The Museum is extremely proud of all the students who successfully completed the Fall 2024 MFA and earned their certificates in personal finance. Thank you to Con Edison for sponsoring this program. $

The Museum is proud to announce that Nicole Leal, Jonathan Altshuler, Mikhael Bondar, Jed Sloan, Farizakhon Yunusova, Layan Alwazzan, Clara Camano, Charlotte Ramos and Abhirup Singh have earned merit scholarships as top achievers in the Fall 2024 semester of the Museum Finance Academy.

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Why Kemmerer, Wyoming Matters—Part 2

By Brian Grinder and Dan Cooper

> That banks could fail in a city of fabulous values and promise; that a free economic system—which enabled me with my partners to build a company such as the JC Penney Company, whose foundation seemed to me so solid as to be everlasting—could see values wither away like parched grass, was a new experience, new knowledge for me. That my moral responsibility and personal character could be attacked—these events brought me to the brink of a real unknown.
>
> *— James Cash Penney*

It was 1933, and J. C. Penney was excited to return to the small town of Kemmerer, Wyoming, where it had all started. Throughout his life, Penney drew comfort and encouragement from his visits to Kemmerer. In his later years, he wrote, "It is impossible for me to adequately express how I feel toward the Kemmerer store, for it was there that I found myself. Every night I thank God for the opportunity that was given me there. Little did I dream, when I opened the Kemmerer store, that it would someday be known as the 'mother' store of nearly 1,700 stores bearing my name."

The United States was mired in the Great Depression, and while the JC Penney Company itself had weathered the storm quite nicely, J. C. Penney, the man, had suffered physically, mentally, emotionally and financially. In his eagerness to participate in philanthropy, Penney chose to borrow money using his JC Penney stock as collateral to fund Penney Farms, an Institute of Applied Agricultural; and Memorial Home Community, a retirement facility for ministers, missionaries and YMCA/YWCA workers. The ag institute was created to help those who had been chosen to live at Penney Farms eke out a living on their 20-acre plots of stubborn Florida soil.

The man is to be forgiven for his overly optimistic view of the future. For since the inauspicious founding of his retail empire, rapid growth and success were the norm. Everyone was optimistic about the future of the company. Penney biographer David Kuger points out that, "while Penney had built his business on the idea of paying cash and avoiding credit, he increasingly relaxed that policy for himself when it came to funding his massive philanthropic projects. Five New York City banks ultimately loaned him the money to carry out his activities at Penney Farms, Memorial Home Community and Emmadine Farm [Penney's Guernsey dairy business]." In all, Penney borrowed between $7 and $8 million to fund his philanthropic activities using his JC Penney stock as collateral.

DeGolyer Library, SMU

J. C. Penney poses with his prize-winning Guernsey cow after winning the 1928 Peer Cup award.

Prior to the Great Depression, Penney was so optimistic about the economic future of Florida that he purchased a controlling share in City National Bank of Miami. In 1928, Penney became the bank's chairman of the board. Heavy withdrawals in December 1930 forced City National to close its doors. Earlier in the year after the Bank of Bay Biscayne closed, Penney personally guaranteed City National depositors against loss. Unfortunately, the run on City National occurred at a time when the value of JC Penney stock was plummeting. Several of the banks that had lent Penney money started selling the JC Penney stock he had put up for collateral to cover his loans. According to Kruger, the bank guarantees "saddled Penney with a $3 million personal loss," while his philanthropic debts exceeded $7 million. Penney's personal fortune of about $40 million was all but wiped out.

Although deeply depressed, Penney continued to travel throughout the country checking in on JC Penney stores. In Battle Creek, Michigan, Penney ran into a childhood friend, Dr. Elmer Eagleston, who was shocked at Penney's appearance. Eagleston diagnosed Penney with shingles and insisted that Penney check himself into the Kellogg Sanitarium, where Eagleston worked, and rest for a while. Penney stayed for about two weeks under sedation but was growing restless. One evening, in a state of great agitation, Penney convinced himself that he would not live to see the morning. Waking up shortly after dawn, Penney decided to get some breakfast. However, when he arrived at the dining hall, it was not yet open. Hearing music coming from the chapel, he wandered in, sat down in the back row and listened to prayer meeting participants sing an old hymn from Penney's childhood. Something miraculous happened to Penney in that chapel setting. Years later, Penney wrote of this experience, "As though I had been pinned to earth up till then by an intolerable weight, I felt the burden lifting from my body and spirit, I sat there scarcely daring to breathe. I felt I was passing out of darkness into light."

A few days later, a revitalized Penney checked out of the sanitarium and resumed

DeGolyer Library, SMU

J. C. Penney welcomes his Guernsey cow back to the United States in 1935, after lending her to Admiral Richard Byrd for two years for his second expedition to Antarctica.

his tour of JC Penney stores. His dire financial situation forced him to close Penney Farms and the Agricultural Institute. He slowly recovered from his financial misfortunes with the help of loans from family and friends, which were used to repurchase some of the Penney common stock he had lost. JC Penney CEO Earl Sams also convinced Penney to resume drawing a salary, which he did from 1932 to 1935. Penney eventually rebuilt his fortune to about $20 million and changed his approach to philanthropy from supporting grandiose projects to concentrating on individual farms and the farmers who ran them, as Penney sought to improve the breeding stock of cattle and horses.

Prior to the Great Depression, Penney had already begun a program to improve the Guernsey breed of dairy cattle. This led to the formation of Foremost Dairy, which became a well-known dairy brand. In the 1920s, Penney purchased the farm he grew up on near Hamilton, Missouri. Penney then spent several years improving and expanding the "Home Place Farm." In 1937, he began raising Angus cattle there in partnership with local cattleman Orin James. Penney purchased several farms around Missouri and often partnered with the tenant farmer who lived and worked on the property at the time of Penney's purchase. He raised various breeds of cattle and horses on these farms.

Kruger sums up the importance of Penney's later agricultural endeavors, "For five decades of the twentieth century, the award-winning livestock Penney acquired and bred made him well known and

DeGolyer Library, SMU

J. C. Penney trains twin calves to drink from a bucket at Foremost Farm, 1955.

DeGolyer Library, SMU

J. C. Penney poses with his prize Percheron draft horse stallion, 1938. Penney began buying prize Percherons during the Great Depression, providing stud services for farmers.

respected among dairy farmers, beef cattle producers and horse breeders nationwide. Angus, Hereford, Guernsey and Percheron breeding associations frequently chronicled his activities, even soliciting articles personally written by Penney about his agricultural ventures and discoveries."

Of course, Penney's influence extended well beyond agriculture. Among the thousands of individuals who worked at JC Penney stores, two stand out. Sam Walton worked at a JC Penney store in Arkansas before founding Walmart, and Warren Buffett worked at the Penney store in Omaha, Nebraska. In 2013, Buffett was asked what he thought of the JC Penney Corporation, which was experiencing serious financial difficulties. In his reply, Buffett reminisced about his own experience at Penney's:

> I've got this huge rooting interest for Penney's. I mean, I worked there when I was 16 selling TownCraft shirts at $1.98, $2,98. I sold women's, or I sold men's clothing, I sold children's and I loved it. And I've always, I've always loved the company.

Recently, Buffett's friend Bill Gates showed up in Kemmerer, Wyoming. Like James Cash Penney before him, Gates's plans for Kemmerer are bound to revolutionize an entire industry as he works to battle climate change with nuclear power. $

Brian Grinder is a professor at Eastern Washington University and a member of Financial History*'s editorial board. Dr. Dan Cooper is the president of Active Learning Technologies.*

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Rediscovering an American Treasure

Hulton Archive / Stringer

The True Value of Hetty Green's Legacy

By Bethany Bengtson and Mark J. Higgins

"[Hetty Green] lived at various times in poor neighborhoods where her property was located... Probably many a discouraged fellow out of work never attributed his newly found job to the shabby old lady on the floor above... But those who were closest to her know that many little acts like this were put down to her credit by the recording angel."

—New York Times Magazine (July 9, 1916)

The Fall 2022 issue of *Financial History* featured an article, entitled "The Story of Hetty Green: America's First Value Investor and Financial Grandmaster." The article focused primarily on Hetty Green's extraordinary investment abilities, which enabled her to flawlessly navigate the panic-prone markets of the Gilded Age. But Hetty was much more than a masterful investor—she was also an admirable human being. In fact, one reason her name is rarely the topic of conversation today is because, unlike many Gilded Age titans of industry, she erected no monuments to glorify her conquests. Instead, she gave back to society quietly in the form of daily acts of kindness and discreet charity.

Hetty Green passed away on July 3, 1916, and her fortune was split between her son Edward "Ned" Green and daughter Sylvia Green Wilks. When Ned passed away, Sylvia inherited his share. Then, when Sylvia passed away on February 5, 1951, Hetty Green's former estate, which was estimated to be at least $100 million (roughly $1.2 billion in 2025 dollars), was distributed to 63 institutions. The names of many institutions were never disclosed publicly.

In the summer of 2024, we channeled Hetty Green's spirit and embarked on a treasure hunt of our own. Our goal was to find Sylvia Wilks's long-forgotten will. After reaching a few dead ends, we located it in the archives of the New York County Surrogate's Court. The will revealed the identities of 63 organizations that received shares of Hetty Green's fortune. Few people at these organizations can recall the source of their unexpected windfall, and even fewer appreciate how closely their missions align with the values Hetty Green espoused more than 100 years earlier.

Hetty Green was derided as the "Witch of Wall Street" throughout her life and long after her death, but the handful of people familiar with her true character regarded her as Wall Street's queen. Unlike most of Wall Street's rulers, however, Hetty was revered for her benevolence. She was tough on people who lacked integrity, but if you entered her domain in good faith, you were treated fairly and respectfully.

Hetty Green's wealth benefits countless individuals today, yet the few people who even recognize her name usually regard her as a ruthless and inconsequential miser. Even more tragic is the fact that the timeless values underpinning her success are almost universally disregarded. Among the more important include her appreciation for self-education, passion for her career, unwavering commitment to civic duty and lifelong practice of discreet charity. These values closely align with the missions of the organizations that benefit from her wealth. For the first time in history, this article reveals the names of these organizations and the values they share with Wall Street's forgotten queen.

This photo of Hetty Green was taken on February 23, 1909 at the wedding of Sylvia Green Wilks. A photo of Sylvia's will appears on the left.

Self-Education

"For a girl to get a business education, it is not necessary for her to go to a 'business college,' although in many cases that would be a good thing for her to do. There are a thousand ways in which girls can get business training, and each girl should select that particular way which is most accessible to her, and most to her taste."

— Hetty Green

The greatest financiers, policymakers and investors in history share a natural commitment to self-education. Alexander Hamilton designed the foundation of the US financial system based almost entirely on knowledge acquired from reading economic history books. Charlie Munger spent a sizable portion of each day buried in books. His business partner, Warren Buffett, embraced the same habit, and he continues to read voraciously to this day. Finally, in his memoirs, Benjamin Graham credits his education in economics and finance to "reading, meditating and practical experience."

Hetty Green was also a lifelong practitioner of self-education. This was especially crucial in her case because formal educational opportunities were limited for Gilded Age women. Hetty's formal schooling consisted of roughly one year at the Friend's Academy boarding school and three years at the James Russell Lowell School. But even these classes had little to do with her achievements on Wall Street. Instead, self-study was her only reliable source of knowledge. Hetty's curriculum began at a young age when she volunteered to read newspapers and business reports to her grandfather after his eyesight began to fail. She soon supplemented her reading with practical experience gained from assisting her father, Edward Robinson, who was among the best whaling investors in the country. Finally, she never abandoned the learning process. She was known to scour newspapers and business reports every day to test the quality of her current and prospective investments.

The Values of the Great Value Investors

In 1792, a small group of brokers signed the Buttonwood Agreement, which became the foundation of the New York Stock Exchange (NYSE). Soon thereafter, Wall Street became a place where countless fortunes were gained and lost. Markets were especially unforgiving to individuals who failed to tame the self-destructive instincts that thousands of years of evolution hardwired into the human brain. Even those who avoided financial ruin often ended their careers in mediocrity—suggesting that their track record was more attributable to luck than they cared to admit. Only a handful of investors defied the odds over the course of an entire lifetime. Topping the list are legends, such as Benjamin Graham, Charlie Munger, Warren Buffett and, of course, Hetty Green.

In the late 1700s, Alexander Hamilton was often lauded as a genius for resurrecting the damaged credit of the United States. But Hamilton rejected this notion, and instead explained that: "All the genius I have lies in this; when I have a subject in hand, I study it profoundly. Day and night it is before me. My mind becomes pervaded with it. Then the effort that I have made is what people are pleased to call the fruit of genius. It is the fruit of labor and thought."

Hamilton's point was that genius is a function of a more deeply rooted set of values, many of which are more replicable than people may assume. Hetty Green's "genius" is explainable in similar terms. Throughout her life, she developed and adhered to an immutable set of values that guided her business, investment and lifestyle decisions. Unbeknownst to her, several of the best value investors in US history embraced similar values, which proved to be just as critical to their success.

A Shortlist of America's Greatest Value Investors

Hetty Green
(Nov 21, 1834 – Jul 3, 1916)

Benjamin Graham
(May 9, 1894 – Sep 21, 1976)

Charlie Munger
(Jan 1, 1924 – Nov 28, 2023)

Warren Buffett
(Born Aug 30, 1930)

The will of Sylvia Wilks honored Hetty Green's lifelong belief in self-education by naming four public libraries as beneficiaries. The institutions listed to the right provide free or inexpensive access to millions of educational resources so that others may continuously expand their knowledge base at minimal cost.

- The New York Public Library, Astor, Lenox and Tilden Foundations
- The New York Society Library
- Trustees of the New Bedford Public Library
- Trustees of the Public Library of The City of Boston, in memory of Dr. Samuel Abbot Green

Career Passion

"I don't believe there is anyone who works harder than I do. It takes all of my time to attend to my business. I get up at 8 o'clock in the morning and I am at work until late in the evening."

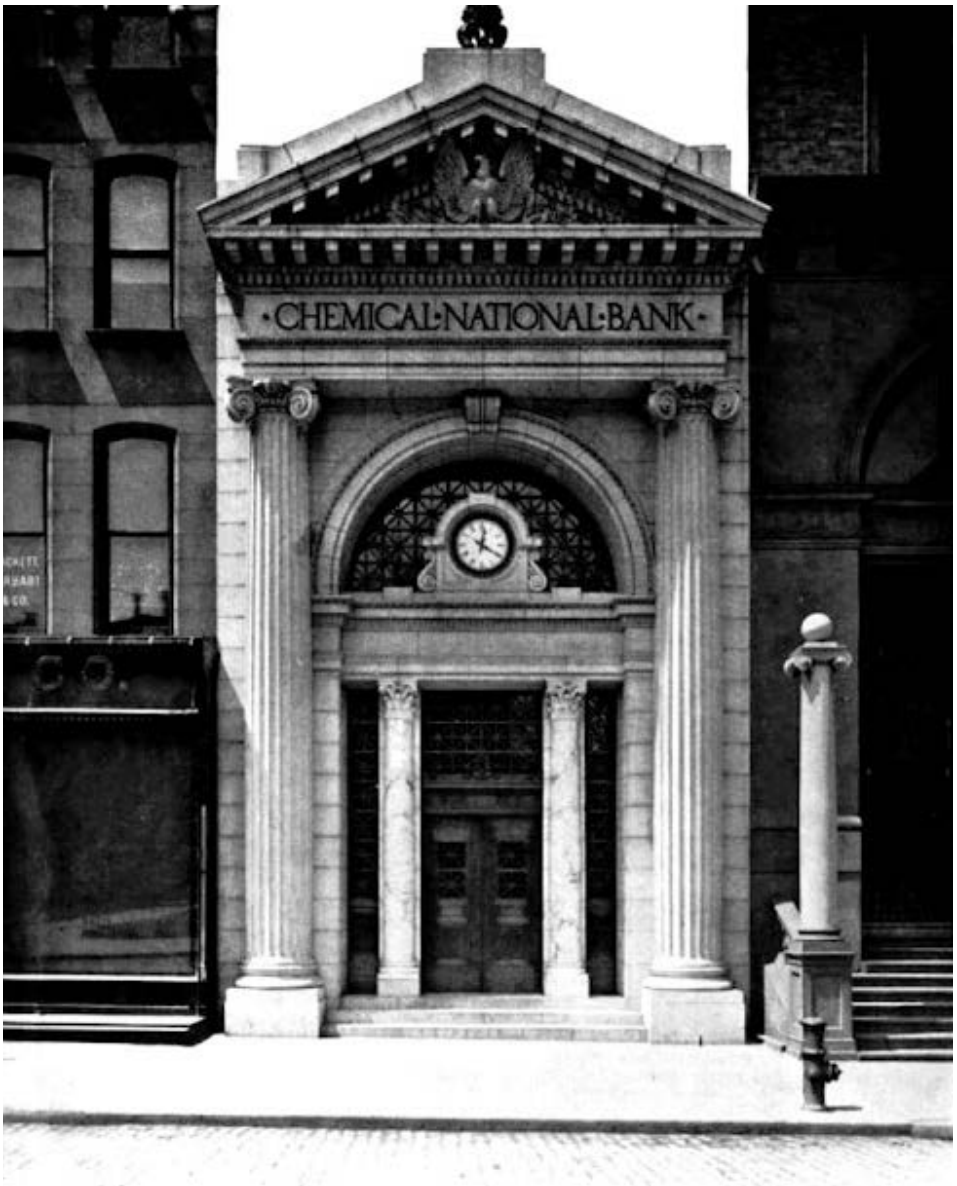
— Hetty Green

Hetty Green understood an immutable truth that few investors appreciate even to this day. The truth is that the only way to outmaneuver ruthless markets is to know more than almost every other market participant. Establishing and maintaining such an edge requires an impeccable work ethic, and adopting such a work ethic is far easier when you feel a genuine passion for your work. This is what made Hetty's "love of money" critical to her exceptional achievements. What people often mistook for selfishness was really a manifestation of passion.

Hetty's passion for finance emerged at an early age. She opened her first bank account when she was eight years old and shadowed her father on the New Bedford docks soon thereafter. As a young adult, she attended galas hosted by New York's high society, but she opted to eavesdrop on men who were discussing the latest events on Wall Street rather than partake in the festivities. By the time Hetty began investing her own money in earnest, she already had a well-entrenched habit of working harder and smarter than her peers.

Hetty's passion for investing compelled her to ask questions that few investors contemplated. The answers enabled her to avoid countless disasters. For example, while residing in London in the early 1870s, an investment scandal involving fraudulent South American securities ruined many investors. The House of Commons responded by launching a committee to strengthen investor protections, but Hetty's natural skepticism provided her with all the protection she needed. She never touched the worthless securities.

Hetty's passion also inspired her to employ unconventional tactics to evaluate investments. She was one of the original "road warriors" of finance, frequently crisscrossing the nation to evaluate the operations of railroads before committing any capital. Along the way, she stopped to evaluate her many real estate holdings scattered in cities throughout the country.



A simple roll top desk at the Chemical National Bank served as Hetty Green's office.

Later in life, Hetty established a routine on Wall Street. She hustled into the city every morning and seated herself at a modest roll top desk at the Chemical National Bank. Throughout the day, she met with business executives and peppered them with questions about the performance of their companies and general economic conditions. She supplemented her knowledge by reading every newspaper, journal and financial report she could find. Only after thoroughly analyzing a company's finances, strategic positioning and character of the management would she consider an investment.

Hetty Green's passion for her career enabled her to blaze a path that few investors have emulated. Her achievements were especially impressive because the standards at the time forced her to rely almost entirely on self-education. Men and women who wish to follow in her footsteps, however, will have an easier path. Fifteen schools received shares of Hetty Green's fortune. Aspiring financial professionals can now pursue a formal education in schools such as Yale, MIT,

Harvard and Fordham. In addition, students who wish to pursue careers in other disciplines can follow their passion in programs offered by all 15 schools.

- Academy of St. Joseph (Brentwood, NY)
- Blair Academy (Blairstown, NJ)
- Fordham University (New York, NY)
- The Groton School (Groton, MA)
- The Johns Hopkins University (Baltimore, MD)
- Harvard College (Boston, MA)
- Massachusetts Institute for Technology (Boston, MA)
- Middlebury College (Middlebury, VT)
- The Knot School Corporation (Kent, CT)
- Columbia University, in Memory of Nicholas Murray Butler (New York, NY)
- St. Paul's School (Concord, NH)
- The Stevens Institute of Technology (Hoboken, NJ)
- University of Vermont (Burlington, VT)
- Vassar College (Poughkeepsie, NY)
- Yale University (New Haven, CT)

Civic Duty

"Those to whom I loaned my money got it at six percent. I might just as easily have secured forty percent. But never in my life, no matter what has been said against me, have I practiced usury, and no one knows it better than the wealthy men who have had business dealings with me."

— Hetty Green

An especially unfair criticism of Hetty Green was that she had a callous disregard for her civic responsibility. Critics often cited her thrift as evidence of selfishness. The truth, however, is that her thrift enabled her to amass substantial cash reserves, which she frequently deployed generously to rescue individuals, financial institutions and even city governments when cash was scarce. Such situations emerged frequently in the late 1800s and early 1900s because the United States lacked a central bank to serve as a lender of last resort.

Despite Hetty's unique ability to provide aid in troubled times, she refused to abuse her position. During financial panics, she could have demanded exorbitant rates of interest on emergency loans. Instead, she prioritized the well-being of society and charged far less than what borrowers were willing to pay. Hetty's most memorable rescue occurred during the Panic of 1907. Her keen sense for the ebbs and flows in the money supply enabled her to foresee the arrival of the crisis long before her peers. For more than a year, she stockpiled cash. When individuals and institutions desperately approached her for loans at the height of the panic, she lent freely and at interest rates far below market. Her preparedness and wisdom earned her an invitation to one of the most important meetings organized by J. Pierpont Morgan. She was the only woman in attendance.

The next cohort of beneficiaries honors Hetty Green's commitment to fulfilling her civic duty. The list includes seven institutions that continue to serve the public interest today.

- Florence Crittenton League, Inc. (New York, NY)
- Honor Emergency Fund of the Fire Department of the City of New York (New York, NY)
- Police Relief Fund, Inc. (New York, NY)
- Seamen's Church Institute of New York (New York, NY)
- Sheltering Arms Children's Service (New Bedford, MA)
- The Legal Aid Society (New York, NY)
- The New York Association for the Blind (The Lighthouse) (New York, NY)

Discreet Charity

"God has been good and kind to me, why shouldn't I be good and kind to others?"

— Hetty Green

Hetty Green bore the moniker of the "Witch of Wall Street" even though historical evidence paints a different picture. Ironically, her refusal to publicize her generosity explains, in part, why the misperception has persisted for so long. The few who knew Hetty Green on a personal level, however, recognized that the public perception bore no resemblance to the real woman. Residents who lived in boarding houses with Hetty recalled a kind, fun-loving and charitable woman. Neighbors who suffered illnesses remember her as a selfless caregiver who nursed them back to health and demanded nothing in return. Distant acquaintances who fell on hard times were surprised to find unlabeled envelopes stuffed with desperately needed funds under their doors. Hetty never took credit for the gifts, but most people correctly guessed the origin.

Hetty Green's acts of kindness sometimes rose to the level of heroism. For example, while residing in London, she witnessed a bleeding man lying on the ground after falling from a cart. Onlookers seemed willing to watch him bleed out, but Hetty leapt into action, bandaged the man's wounds and quite possibly saved his life. Back in the United States, Hetty was once traveling on a train that experienced a deadly derailment. Ignoring her own shock, Hetty assisted a surgeon with the gruesome task of amputating a passenger's leg at the scene of the accident.

Recognizing Hetty Green's discreet charity and acts of heroism makes it fitting that the last cohort of beneficiaries is also the largest. It includes a diverse array of 37 faith-based organizations, hospitals and charitable institutions. These organizations continue to leverage the wealth of Hetty Green to improve the lives of those in need.

Faith-Based Organizations

- Christ Protestant Episcopal Church (Greenwich, CT)
- Church of the Incarnation (New York, NY)
- General Theological Seminary (New York, NY)
- Immanuel Protestant Episcopal Church (Bellows Falls, VT)
- NY Monthly Meeting of the Religious Society of Friends (New York, NY)
- St. Ann's Church (Brooklyn, NY)
- St. Bartholomew's Church (New York, NY)
- St. George's Church (New York, NY)
- St. James Church (New York, NY)
- St. Peters Protestant Episcopal Church (Morristown, NJ)

- Trinity Church (New York, NY)
- Trinity Church (Newport, RI)
- Young Men's Christian Association (New York, NY)
- Young Women's Christian Association of the City of New York (New York, NY)

Hospitals and Charitable Institutions

- American National Red Cross (Washington, DC)
- The American Society for the Prevention of Cruelty to Animals (New York, NY)
- Beekman-Downtown Hospital (New York, NY)
- Bide-A-Wee Home Association (New York, NY)
- Hospital for Joint Diseases (New York, NY)
- Institute for Crippled and Disabled (New York, NY)
- Lenox Hill Hospital (New York, NY)
- Memorial Hospital of Green County (Catskill, NY)
- Miriam Osborn Memorial Home Association (Harrison, NY)
- New York University–Bellevue Medical Center (New York, NY)
- New York Women's League for Animals (New York, NY)
- Peabody Home for Aged and Indigent Women (Bronx, NY)
- Rockingham Hospital Association (Bellows Falls, VT)
- St. Luke's Home for Aged Women (New York, NY)
- St. Luke's Hospital (New York NY)
- St. Luke's Hospital (New Bedford, MA)
- The Flower and Fifth Avenue Hospitals (New York, NY)
- The Johns Hopkins Hospital (Baltimore, MD)
- The Massachusetts General Hospital (Boston, MA)
- The New York Society for the Relief of the Ruptured and Crippled
- The Roosevelt Hospital (New York, NY)
- The Society of the New York Hospital (New York, NY)
- Women's Hospital (New York, NY)

Bethany Bengtson is pictured with the will of Sylvia Green Wilks.

A Tale Worth Re-Telling

"She was always merry, even to the last, and she had one of the sweetest smiles I have ever seen. She was always smiling, too, except when telling how she had got the best of J.P. Morgan, the elder, or some other Wall Street giant. Then she would look at you solemnly and slowly close one eye in the slyest, most mischievous wink."

—Friend of Hetty Green

The financial history of the United States includes many memorable acts of heroes and villains. Occasionally, historians mistake villains for heroes and heroes for villains. Hetty Green is perhaps the most extreme example of the latter. She tamed the lawless markets of the Gilded Age in the face of formidable headwinds that only threatened women who dared to seize the helm. She offered desperately needed aid at below market rates when the entire financial system approached the brink of failure. She charmed neighbors with her modesty, caregiving and wry sense of humor, thereby bringing joy to their lives.

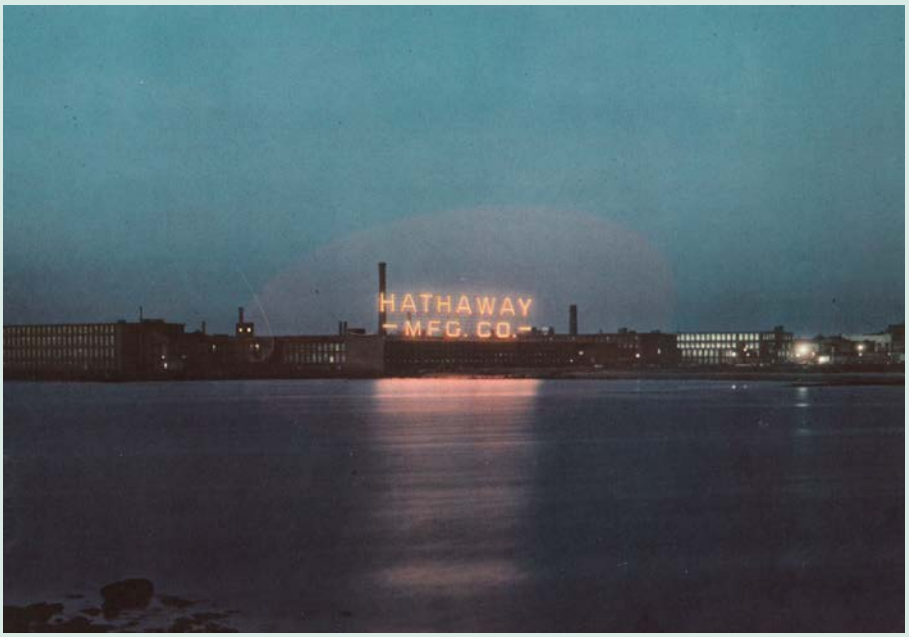
Hetty Green's tradition of quiet public service continues today. Fifteen educational institutions provide formal training in business, finance and countless other

An Old Yarn in the Fabric of Berkshire Hathaway

During the first half of the 1800s, New Bedford, Massachusetts was the epicenter of the lucrative whaling industry. Much like venture capital-backed companies today, whaling voyages were risky endeavors. The average voyage lasted nearly four years and few ships produced returns worthy of the risk. The most successful whaling investors performed exhaustive due diligence and spread their risk over many voyages. The goal was to gain exposure to an occasional blockbuster, which would offset subpar returns and total losses. Hetty Green's ancestors, the Howlands, were among the most successful whalers in the nation. Hetty's patience and relentless due diligence practices were undoubtedly shaped by her upbringing.

In 1869, the tide in New Bedford began to shift. That August, Colonel Edwin Drake drilled the world's first oil well in Titusville, Pennsylvania, thus providing Americans with a cheap alternative to whale oil. Many New Bedford residents searched for new investments to diversify their exposure to whaling. New England's textile industry was thriving at the time, making it an attractive prospect.

In 1888, a New Bedford resident named Horatio Hathaway entered the textile industry by forming the Hathaway Manufacturing Company. The original partners contributed $400,000 of capital. Despite Hetty Green's reputation for maintaining a sparse wardrobe—she was known to wear a simple, black dress until it was threadbare—she contributed $25,000 to the venture. Over the next 67 years, Hathaway Manufacturing operated as a successful, but little-known, producer of cotton textiles. In 1959, the company merged with Berkshire Fine Spinning Associates to form Berkshire Hathaway. Then, in 1964, an up-and-coming investor named Warren Buffett acquired Berkshire Hathaway. The textile business proved unrewarding to Buffett, but the namesake survived. Buffett and his business partner, Charlie Munger, used Berkshire Hathaway as an investment vehicle, and their performance over the subsequent 60 years established them as two of the greatest investors in US history. Unknown to nearly all Americans is the fact that Hetty Green sewed one of the first threads into the canvas of this American masterpiece.



Courtesy of Berkshire Hathaway

disciplines for students who wish to follow their career passions. Thirty-seven hospitals and faith-based organizations provide aid to those seeking physical healing and spiritual guidance. Individuals seeking to adopt Hetty's practice of self-education can visit four libraries which provide free or inexpensive access to invaluable resources. Finally, seven organizations dedicated solely to service of the public good remind us of Hetty's commitment to uphold her civic duty.

Hetty Green's character and accomplishments remain largely unknown today because she was misunderstood by both peers and historians. The hope is that shining a light on her extraordinary life and legacy will allow others to adopt the values that fueled her success and honor a tragically misunderstood American hero. $

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Mark Higgins, CFA, CFP® is a financial historian, experienced institutional investment advisor and frequent contributor to Financial History *magazine. His book,* Investing in US Financial History *(Greenleaf Book Group, 2024), recounts the full financial history of the United States from 1790 to 2023.*

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Dwight Carter

SHE-WOLVES

Marianne Spraggins' Battle for a Seat at the Table

By Paulina Bren

In the early 1980s, Wall Street was not yet the sought-after destination it would soon become, but Marianne Spraggins sensed she needed to be there. The daughter of a prominent lawyer and activist in New York, Marianne had grown up in a historic Harlem brownstone once owned by the wealthy, well-connected racketeer Madame St. Clair. She had been adventurous in her 20s, marrying a jazz musician and moving to Los Angeles, working as an airline stewardess (as flight attendants were then called) and on the NBC television shows *Speaking Freely* and *Positively Black*. After her adored father died in 1971, she decided to honor him by becoming a third-generation Spraggins lawyer.

Marianne had a law degree from New York Law School, an additional LLM degree in international law from Harvard Law and was an associate professor at New York Law School—she did not need Wall Street. Yet she could not forget a seminar she'd taken on international business transactions, taught by Nicholas Deak, "a very suave…mysterious" Transylvania-born American Hungarian who would arrive for class in a different vintage car each time, his chauffeur behind the wheel. When she learned that Deak owned a Swiss bank, as well as the New York financial group Deak-Perera, she practically swooned.

Marianne immediately understood that Deak represented a level of power she had not yet experienced. Growing up, she had "understood political power from this Harlem vantage point of getting people in jobs and knowing city hall and getting people in judgeships. But I always knew there was something more. And when I took that course, and we went down into those bowels of Wall Street, I didn't know what they did, but there was a different energy, and just a, kind of like a veil being lifted for me. I didn't know what it was, but I knew it was really important and it was kind of a magnet."

The money was certainly an allure for Marianne, "but that wasn't the driving force." Instead, it was the dawning recognition that Wall Street represented power and "knowing that this is a table that we did not sit at. And that we had to." And so she set her sights on Wall Street, to be one of the first Black women to sit at the table with a full place setting in front of her.

But it was one thing to decide to go to Wall Street and quite another to figure out how to get there, or even understand what Wall Street was. Looking for a way in, Marianne was introduced to Russell L. Goings Jr., the founder of one of the first Black brokerage firms, First Harlem Securities Corporation. Goings had started out as a shoeshine boy at a brokerage house. A former professional football player with an intellectual bent, he warned her that Wall Street was rough, "brutal for Black people."

But Goings did not put Marianne off. "I called up every single Black person on the Street at firms and said, 'Hi, I'm Marianne Spraggins, let's get together.'" Few of them were willing to meet with her, and she should have understood right then that the game of survival on Wall

Marianne Spraggins poses for a photo shoot for a profile in *Black Enterprise,* 1992.

Street was so cutthroat that the ideas of kinship to which she was accustomed might be meaningless there. But she did manage to rustle up some meetings and slowly started to figure out who was who, what each firm did, who their clientele was, what part of the financial world they represented and what you were expected to do once you entered their world.

She was searching for a way into Wall Street when she happened to arrive at a party and saw her friend's boyfriend standing there, looking, to Marianne's eyes, "very bankerly," in a pinstriped suit and a shirt with a white collar.

He noticed Marianne too. "You know, I know you."

"You do?"

"You get off the train at Franklin Street. I see you in the morning."

The stop after Franklin was Wall Street—and, indeed, it turned out he worked for Salomon Brothers.

She got right to the point; she wanted to get onto Wall Street. *Could he help?*

The next day he called her. "Can you get me your résumé?"

He managed to get her an interview but warned her not to get her hopes up. Salomon Brothers was putting together a "class" of incoming analysts. That was the good news. The bad news was that they'd already picked four Black people for it—two men and two women—and this was itself revolutionary. It was hard to imagine they'd bring in a fifth Black analyst.

On Monday, she arrived at her interview on the 42nd floor of Salomon Brothers, all rich wood paneling and Persian rugs. The imposing reception area was filled with paintings and art objects, and the interview room with white men. While she'd sat waiting to be called in, she'd observed the other interviewees and was unimpressed. When it was her turn, she went in, determined to act herself because she needed to be sure she'd fit in.

It worked. She got a callback for a second interview, this one held in a large meeting room that overlooked the trading floor. Marianne decided to take the lead. She walked in first, chose where to sit and followed the same advice she gave her students at NYLS: "If you believe you are excellent…the world will be persuaded to accept your view of yourself." But part of her confidence stemmed from her ignorance; it was all still a game to her—she still "had no idea what they did" on Wall Street. When she was asked what she wanted, she didn't say money or power. She said, "I don't see anyone here who looks like me and I want to be here for that reason." On Friday, they told her she had a spot in the training program. She had found a seat at the table.

> **"I don't see anyone here who looks like me and I want to be here for that reason."**
>
> — Marianne Spraggins

Each analyst class started off with basic training: one week they learned about treasuries, another week about securities. Half the time Marianne had no idea what they were talking about, but she had faith in what she'd learned at law school; if push came to shove, she could always lock herself in a room, read everything she needed to on a given subject and figure it out. Department heads arrived to give lectures about their specific financial sectors with binders tucked under their arms with each analyst's profile, including background and photograph. As far as Marianne could see, these weren't so much training sessions as they were "beauty contests," a chance for department heads to come and decide who they wanted to snatch up for themselves.

The pressure to conform was intense. One of the other two Black women had arrived sporting an Afro and a hippie vest. Within a week she had entirely changed her appearance, her clothes and her persona. Women especially, Marianne noticed, felt the pressure to blend in, to show up wearing a pinstriped lady-suit and a "little yellow tie thing." But Marianne was having none of that. She told the woman there was no point in trying to blend in; that for Black women, blending in wasn't even a possibility, and so why pretend? A Black woman needed her clothing to say, "So this is who I am, and this is who I'm going to be here." For Marianne, that meant a blazing red suit and high heels.

As the weeks passed, department heads stopped by to recruit their top picks. The white men were the first to be hired. Most of them had arrived knowing someone and had planned to join their friend's department at "Solly." Among the five Black trainees, one of the women was immediately shipped off to a branch office. No way was Marianne going to be removed from New York, where the action was. One of the two Black men had barely spoken to the other four African Americans in the class; he had a plan just like his white counterparts, and he, too, was placed quickly. Now there were three Black trainees left, and time was ticking. The remaining man, who had a military demeanor and might have gone to West Point, suddenly vanished and Marianne heard he'd been found dead in Central Park.

Now there were two Black women: Marianne Spraggins and a super-smart math major who was not from New York. No one invited either of them to join a department. With nothing to do, they languished. They watched and rewatched the training tapes. During a 12-day subway strike in April 1980, the two of them had to take cabs to and from work, all paid for by Salomon Brothers, only to do nothing once they arrived. They attended social events where they were asked what they did at the much-revered firm. The power of their imaginations was tested; they had to pretend they were doing something.

The holding pattern was awkward, excruciating, deeply humiliating. They had nothing to do. No one spoke to them. They were like pariahs. An Irish security guard would stop by Marianne's desk and ask how she was doing. *Not well.* She felt "like Hester Prynne with her scarlet letter." Worse, it was almost time for the next class of trainees to arrive, to assume their place in the lecture rooms. The other Black woman in the meantime had started to date a white man at the firm, not a partner but someone high up in the pecking order. It was "a fatal error," in Marianne's assessment. Sure enough, she disappeared all of a sudden, presumably removed by either the Salomon partners or an angry spouse.

Now it was just Marianne. One thing she knew for certain; she had to keep

her game face on no matter what she felt inside. Much of the time she was doing what she could just to hold back the tears: to show any vulnerability, any pain, was out of the question. How did she go from being a law professor to this?

There were times when it was hard to keep her composure, when the humiliation cut her to the core. Because she had nothing to do, and everyone knew it, sometimes she was sent out onto the trading floor—a place populated, in her mind, by "uncouth, ill-bred, uneducated people making boohoo money"—to get a quote. The traders would make the women (and anyone else they wanted to torment) stand there for 15 or 20 minutes before they even acknowledged them. She was on the floor being yelled at by one of the traders after having already done her time waiting for his attention when suddenly she heard, "Oh, Professor Spraggins!"

Marianne turned around. Standing there was one of her former law students, who turned out to be the sister-in-law of one of the senior partners. Marianne excused herself after a bit and went to the bathroom, where she broke down in tears. She had been reduced to nothing by these people, and now her former student had been a witness to her humiliation.

What made it worse was that she was having to answer to a man who was "a total racist" with "steel-blue eyes, like a beetle." One day he sent her to interview at one of the departments, and when she got there, she saw that here were the people of color. They were working in either money markets or municipal bonds. It didn't take having an MBA to work it out. Money markets were the sector in which you made the least money. As for municipals, Black mayors were starting to be elected all around the country, and it was in every firm's interest now to have minorities sitting at the table representing them in meetings with these newly elected Black officials in charge of investing large sums of public money.

Marianne made a quick calculation: these Black employees were going to be pitted against other Black people hired at the other firms for the same reason, all of them chasing after Black business. This is where he thought she belonged. She did the interview, saying everything she was supposed to say about how she wanted to make bundles of money. The man then looked up, pointed to the secretary's desk, and said that she'd have to sit "there," with the secretary, because there was no desk space "here." She thanked him politely and left, her anger building.

Allan Tannenbaum

The Salomon Brothers trading floor in the 1980s.

By the time she reached her supervisor, she was yelling, screaming, crying. "Let me tell you one thing," she said, planting herself in front of his desk. "You can subject me to anything you subject everybody else around here to. That, and no more. Because you don't understand who I am. I am Roy Spraggins' daughter. That means nothing to you, but it means everything to me, and it means everything to everybody who ever put anything into trying to make something out of me in this life. I will do that and no more, do you understand?"

He stood up, apoplectic, turning various shades of purple. He pointed to a desk outside his office as if he were putting her in detention, shouting that if she hadn't liked it "up there" then she was just going to have to sit down here in that chair.

She sat down. She did what he ordered. She tried to compose herself. And as she sat out the rest of the day on that chair outside his office, she made up her mind that either she'd be a huge success or else she'd be "carried out feet first." The next day, she gathered up her things and moved to the cafeteria.

Salomon Brothers had private dining rooms, where partners invited clients and guests, but the company cafeteria was where everyone usually went to grab some food, even the partners, especially in the mornings. Marianne parked herself at a table right near the cash register so that everyone who came in would have to see her. She sat there from the time she came in until it was time to go home, reading the financial papers, busying herself. She made it her office because "one day, somebody is going to have to say, 'Who is that Black woman? Why is she sitting there every day reading the papers,' right?" Deciding it was better to be glaringly visible than conveniently invisible, to put herself on view, to make a spectacle of herself no matter how awkward it was for her or anyone else, brought its own kind of liberation.

Sitting at her cafeteria table, if anyone so much as made eye contact with her, she found out who they were, went to their office and introduced herself. A new "class" of analysts had since started up, and she did not hesitate putting that out there: "I was in the previous class and I didn't get placed. Do you have any work you need done?" Some, taking pity on her, or feeling so awkward that they just wanted to make her disappear, gave her work. She was handed small tasks here and there, and after she was asked to write a paper on European floating rates, she

eventually got an interview in the newly emerging field of mortgage finance. A man named Lewis S. Ranieri handed her a prospectus on a Friday and said they'd talk on Monday.

Ranieri was not yet a familiar name outside of Salomon Brothers, although he would become well known after the publication of *Liar's Poker*, Michael Lewis's autobiographical account of life at Salomon Brothers in the late 1980s. Ranieri had started in the mailroom at Salomon Brothers while a college student in Queens, alighted on the trading floor as a college dropout and then blew past everyone when he created an entirely new market in mortgage-backed bonds. He would be known for coining the term "securitization" and be among the first to practice "financial alchemy," in his case packaging home loans and selling them to institutional investors.

When Marianne arrived for her interview in the early 1980s, the mortgage trading department on the 41st floor was not yet filled with what Lewis would call "the firm's Biggest Swinging Dicks." Ranieri's department would eventually be the golden goose laying the firm's most monumental golden eggs, outpacing all other departments at Solly; it was where every analyst trainee would want to be assigned.

But for now, there was no sign of this future. That Ranieri handed Marianne a prospectus explaining what his department did and what they were selling suggested that no one yet understood mortgage bonds. Mortgages as a possible source of Wall Street trading was, in hindsight, obvious. Yet mortgages had not been recognized as a potential source of seemingly endless revenue until Salomon Brothers started Wall Street's first mortgage securities department in 1978. At the center of it all was the small-town savings and loan bank, known as a thrift, which doled out most of America's mortgages and benefitted from government protections and tax breaks. Outstanding mortgage loans were at $55 billion in 1950, rising to $700 billion in 1976 and becoming a whopping $1.2 trillion by January 1980.

Marianne, even after she'd read the prospectus cover to cover and her friends had quizzed her until she could recite it in her sleep, still wasn't sure what these mortgage-backed securities were, but on Monday morning she took a deep breath and knocked on Ranieri's office door. She was ready to answer any questions he could possibly throw at her. But after a short while he simply said that she sounded like everyone else at the firm so she might as well have the job.

It had taken Marianne over a year, but she finally had a position at Salomon Brothers. Yet when she started cold calling to sell this product that neither she, nor anyone else, understood, it was a fail. And so she decided to use her common sense. She realized this was a long-term asset, which would influence who wanted to buy it. Pension funds was the obvious answer. She switched gears and, sure enough, public government pension funds proved to be the most receptive. As soon as she did her first deal, she was on to the next state to do another. Soon she was selling a whole series of mortgage bonds to various state and city pensions.

Marianne had lucked out. It could not have been predicted that Ranieri's department would become the top earner at Salomon Brothers. When the department finally took off, it was because of a single tax decision. In October 1979, the Federal Reserve, under Paul Volcker, appointed by President Jimmy Carter in a desperate attempt to staunch inflation, had significantly raised interest rates. The S&Ls, the thrifts, were hit hard. Until then, the joke had been that they operated under a system of 3–6–2: pay depositors 3%, lend their money out as mortgages at 6% and hit the golf course at 2 P.M. But with Volcker now trying to tighten up money to lower inflation, the reliable formula imploded. Volcker cooled the economy, as intended, but he also brought the housing market to a screeching halt, and the S&Ls to the brink of collapse. Congress, unwilling to give up on the mom-and-pop banks of middle America, agreed to help them out.

Starting in October 1981, these small thrifts were given the right to sell off their mortgages to pay off their depositors. To make it yet more advantageous for them, they were also able to turn their loss on these mortgages into refunds on taxes they'd paid in previous years. With such a profitable tax break dangled in front of them, S&Ls were suddenly extremely eager to unload their mortgages, and Salomon Brothers was the only brokerage house with a fully established mortgage trading department. Overnight, Ranieri found himself with a Wall Street monopoly.

At first, he bought mortgages from one S&L and sold them to another at a markup. But to make them more tradeable for institutional investors, he came up with what became called the mortgage-backed security (MBS). These securities were pooled, turned into baskets filled with anonymous mortgages that the buyer and trader only saw as paper and that the mortgage-owner only saw as a monthly mortgage reminder from their local, friendly S&L. In 1982, Ranieri's department made $150 million for Salomon Brothers.

In 1984, Marianne was called on to testify before Congress about the MBS market in relation to a proposed bill to increase the ability of pension funds, both public and private, to participate in this new market. Marianne, representing Salomon Brothers, explained, "We are pioneers in developing mortgage securities and, indeed, I think we could go so far as to say that we have been missionaries, in that field. We have learned a lot of lessons." She was asked why other firms were so slow in getting in on the MBS, and she countered, "I would love to say that that was true, that other firms haven't tried, but they have… We were willing to come into this market at an early stage in time," and as a result are "now trading about $15 billion in mortgage securities a month." That same year, Marianne would herself do four Connecticut transactions that totaled $500 million.

Marianne was extravagant and reveled in being so. When she closed on her first big deal, she invited her friends, most of them from outside the finance world, to the Palace on East 59th Street, which was said to be "the city's most expensive restaurant." She jubilantly announced to the waiters at the start of the dinner to put the glasses on the bill "because we're going to break them!" Marianne had not only found a seat at the table but had guaranteed herself a full place setting. $

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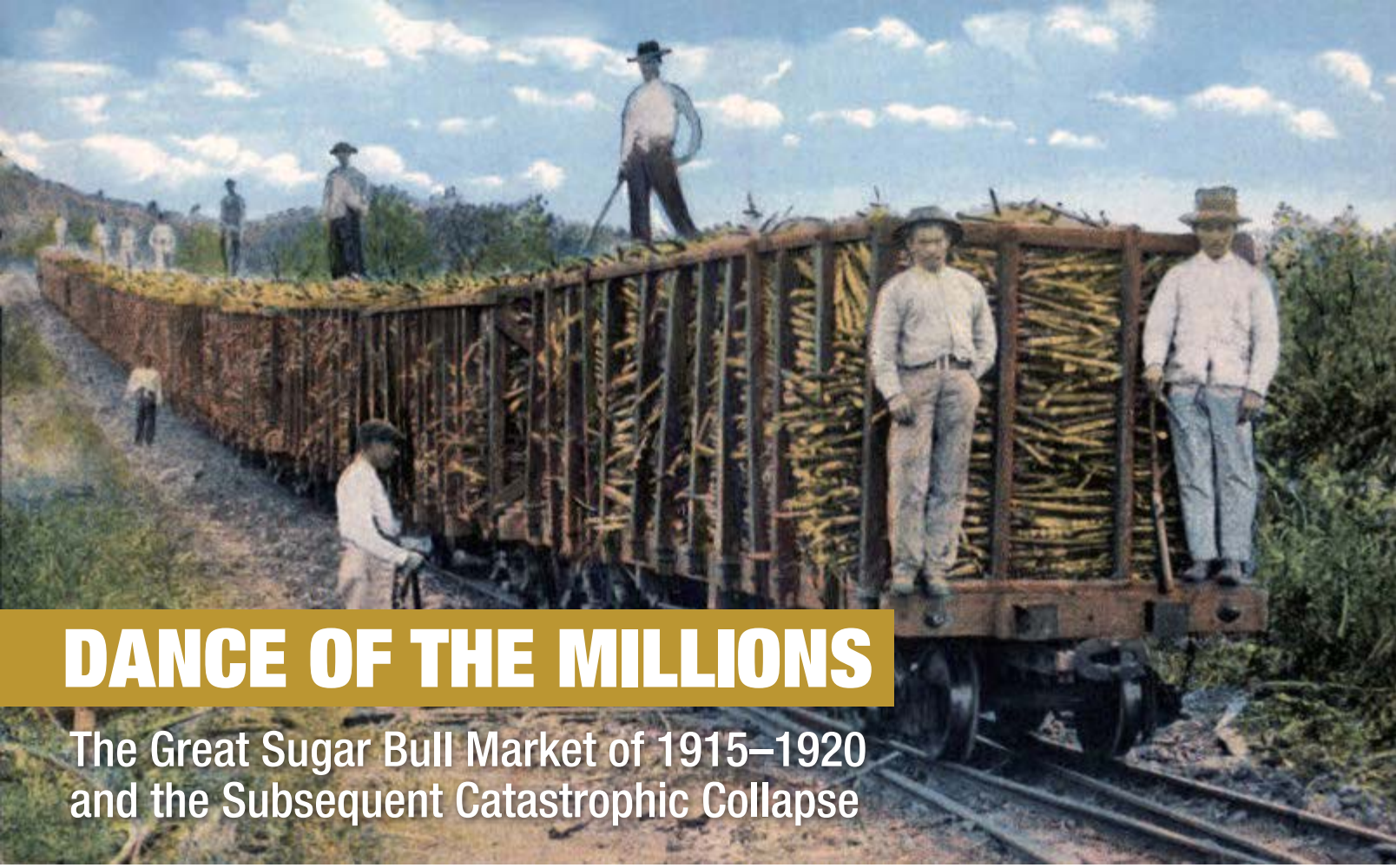

DANCE OF THE MILLIONS

The Great Sugar Bull Market of 1915–1920 and the Subsequent Catastrophic Collapse

By Daniel C. Munson

Legendary 20th-century Wall Street investor and author Philip Carret begins his wonderful 1930 book, *The Art of Speculation,* by arguing that all businesspeople are speculators to some degree, whether they wish to acknowledge it or not. He provides an example: In May 1920 world sugar prices reached 22½ cents per pound, and by mid-year 1921 sugar had declined in price to two cents per pound. (For context, the present-day price is around 20 cents per pound.) "In 1920 it was literally impossible for any producer or refiner of sugar in the world to escape a fleeting prosperity," he wrote, whereas, "in the debacle of 1921…it was quite impossible for any sugar producer to make money." Carret draws from this example the idea that all businesspeople must consider the factors underlying the current price of what they consume and produce, and act accordingly. In other words, they must think and act, to some extent, like a speculator.

Mr. Carret concedes that such a dramatic price run-up and quick collapse is unusual, but the broader point about businesspeople and speculation is made. The reader goes on to enjoy Mr. Carret's discussion of the different ways to approach the buying and selling of securities and commodities—in a manner that his long and successful investing record suggests is profitable.

The financial historian can't help but ponder this dramatic rise and fall in the price of such a prosaic item as sugar. Could such price movements have had interesting causes? And could they have produced interesting and potentially deleterious longer-term effects?

They could—and they did.

The world's sugar is produced by extracting the sweet sucrose crystals (that enter the bloodstream as glucose) from one of two very different sources: sugar cane and sugar beets. Sugar cane is best grown in the tropics, sugar beets in the rich, black agricultural soil found in middle America and central Europe. Demand for the tasty crystals is—to the consternation of most of the world's nutritionists—brisk and dependable. The dramatic price action described above was therefore due to big changes in the supplies of sugar extracted from these two sources and brought to market, not to changes in demand.

The tropical region that had the most developed sugar cane producing industry was on the island of Cuba. It is in Cuba that we see the most interesting and devastating effects of this dramatic rise and fall in sugar prices, effects that reverberate even today.

Cubans say that "without sugar there is no country" (*Sin azucar no hay pais*), and certainly the economic development of the island in the 19th and early 20th centuries owes a good deal to the sugar industry.

Sugar production in Cuba began in the 16th century, but it grew slowly until production took off three centuries later. From about 50,000 tons per year in 1820, sugar production grew to nearly one million tons by the end of the century. The Spanish-American War ended with the creation of a Cuban Republic in 1902, a development that the American and

Postcard of a trainload of sugar cane in Cuba, early 20th century.

British governments wished to encourage. American politicians proposed a reduction in the tariff applied to Cuban sugar, but midwestern sugar beet interests opposed it. It was when the British lowered their tariff on Cuban sugar that Americans sensed a threat to their relations with Cuba and quickly approved a substantial reduction in the tariff.

These tariff reductions had the desired effect. Sugar production in Cuba more than doubled in the 10 years from 1904–1914, to 2.6 million tons per year. The danger at this point was over-production, and prices averaged only 1.93 cents per pound in July 1914. World War I began the following month, however, and the price of sugar began to take off: it almost doubled in August. Cuba's potential problem of over-supplying the sugar market was solved by events elsewhere.

Sugar prices remained high as World War I dragged on. The sugar beet fields were in the eye of the storm along France's eastern border with Belgium and Germany. The elevated sugar prices that resulted from this reduction in beet production encouraged expansion of Cuban output.

From 2.6 million tons at the outset of the war, Cuban sugar production topped three million tons in 1915-16, while prices increased to 4.4 cents per pound, then to 4.6 cents per pound. The 1916–17 harvest brought the country's sugar producers $300 million—a huge increase from the levels of roughly $100 million before the war.

This simultaneous escalation of production and prices was perhaps a lesson lost on the Cuban sugar industry. Commodity producers often learn the hard way the effect that increasing production has on market prices. Such producers henceforth gauge their production increases very cautiously and do so while keeping a close eye on their fellow producers. The cataclysmic events occurring thousands of miles away from Cuba in Europe kept Cuban sugar producers from internalizing a lesson that probably cannot be learned from dry economic textbooks.

Cuban President Mario Garcia Menocal took a sanguine view of the situation. He was an engineer and a manager of one of the country's larger sugar plantations, and he could find little in this increased production to cause concern. Government coffers swelled, and Menocal and his government found uses for the money that—to put it mildly—would later appear self-serving.

Wall Street sensed opportunity. A company calling itself Cuba Cane Sugar Corp. was capitalized in 1915 at roughly $50 million, and it began buying up the sugar mills that crush and extract the sugar-water mixture from the cane. Cuba Cane Sugar was a success and inspired imitation.

The United States entered the war in April 1917, and its leaders sought to control the escalation in commodity prices often caused by war, sugar included. American control of the Cuban sugar industry was almost total, and its wartime leaders simply told the Cubans that the United States War Trade Board would henceforth buy

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COLUMBIA TRUST COMPANY

Cuba Cane Sugar Corporation specimen preferred stock certificate, circa 1910s.

Heritage Auctions, HA.com

up the entire Cuban sugar harvest and pay the producers a fixed price of 4.6 cents per pound for their 1917 production. (For context, the spot price had been over five cents per pound earlier in 1917.)

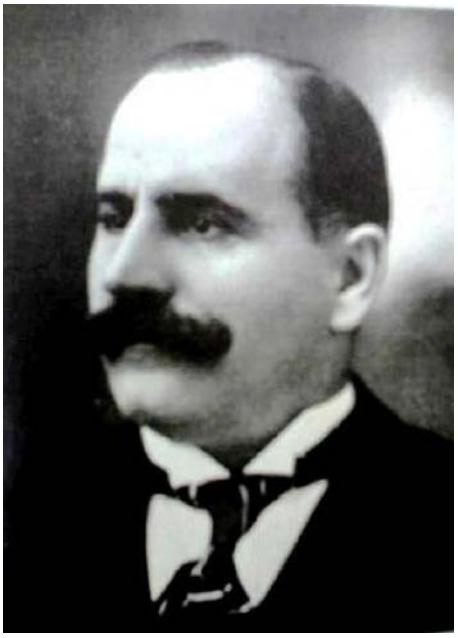
This somewhat ham-handed approach to the Cubans and their sugar industry might have been the source of some grumbling among producers, but the fixed price still amounted to a bonanza for the industry. The boom spilled readily over into the government's coffers, and President Menocal's treasury announced in mid-year 1917 that it had accumulated a surplus of over $8 million.

The incentive to increase sugar production was great, and large tracts of Cuban forestland were destroyed to grow sugar cane. The daughter of a Cuban tobacco farmer watched it all with some dismay. "The great impenetrable forests were set aflame," she wrote. "That most beautiful and fragrant tropical wood—cedar and mahogany and mastic and magnificent pomegranate—blazing in sacrifice to the frenzy to cover the countryside with sugar cane."

Cuba's expanded sugar production was considered a war-time expedient. "The one really important achievement of Cuba in the war was in vastly increasing the output of sugar," concluded Cuba scholar Charles Chapman, "which was an indispensable product for the allies." The War Trade Board agreed to a price hike to 5.5 cents per pound in September 1918, a 20% increase over the previous year's price but still some 40% below the prevailing spot price. The four million tons harvested in 1918-19 thus brought the Cuban sugar industry some $440 million, a four-fold revenue increase over pre-war levels. Even as the money rolled in, Cuban sugar interests became aware that their American customers were re-selling the sugar in the United States for much more than the fixed price, and they began grumbling that the 6.5 cents per pound price set for 1919 was not high enough.

American and Canadian bankers could not resist the temptation to lend against this tremendous bull market in both quantity and price. Royal Bank of Canada lent aggressively in Cuba, but the National City Bank of New York was the leading lender. According to National City's official history, the bank opened more than 20 branches in Cuba during this heyday, and their asset of choice to lend against was the sugar mills. They financed the mills' working capital, and they extended credit to mill suppliers.

Cuban President Mario Garcia Menocal—an engineer and manager of one of the country's largest sugar plantations—found little cause for concern in the increased sugar production of the mid-1910s.



Jose Lopez "Pote" Rodriguez was the largest shareholder in Cuba's Banco Nacional and had $25 million in unsecured borrowings from the bank—money that was bidding up the prices of Cuban sugar-producing assets.

The war had ended in November 1918, but the damage done and the shortage of workers extended the shortages in sugar, as well as many other agricultural commodities. The beet fields in Europe remained torn up by the trench warfare, and farm workers were scarce. French beet factories totaled more than 200 before the war; in 1919, they totaled less than a dozen. European sugar beet production in 1919 was a mere 2.5 million tons, down almost 70% from the levels of roughly eight million tons per year before the war. Russian agriculture was distracted and confused by the industrial chaos stirred up by its new revolutionary central planning regime, and Russian sugar beet exports largely dried up.

By late 1919 it was clear that the exigencies of war could no longer justify fixing agricultural prices below prevailing spot prices. American sugar beet producers joined with sugar cane producers to pressure the Sugar Equalization Board to discontinue its fixing of sugar prices. In November 1919, the board relented, and sugar prices in the United States were set free.

The 1920 bull market in sugar prices that resulted has few parallels in financial history. The quote was 9⅛ cents in mid-February and 11 cents by mid-March. It then jumped to 18 cents by mid-April and 19 cents in mid-May.

The money being rolled up by sugar producers began growing by leaps and bounds, and their bankers could hardly fail to notice. National City Bank found it difficult to resist the trend, and by the end of June 1920 the bank had almost 20% of all the loans outstanding in the Cuban banking system. The expansion of credit spilled over into real estate. "With every sugar planter demanding a town house [in Havana] and an opportunity for the conspicuous display of his good fortunes," wrote historian Leland Jenks, "the Havana suburbs suddenly became an attractive speculation." It was this ostentatious spending in and around the capital city that Cuban journalists began to refer to as the "Dance of the Millions."

However violative this spree of lending was to National City's tradition of asset diversification—its total loans in Cuba tallied to over three-quarters of its capital—they showed more prudence than did the Cuban banks. The largest such bank, Banco Nacional, was lending freely against these sugar assets—and little else. Its largest shareholder, Jose Lopez "Pote" Rodriguez, had unsecured borrowings from Banco Nacional totaling some $25 million—money that was bidding up the prices of Cuban sugar-producing assets.

The sugar price peaked in late May at 22½ cents, at which point the liquid funds available could no longer sustain the advance. The price receded to 17½ cents by the end of June and 15¼ cents by the end of July. Such prices were still a boon to those producers who hadn't borrowed heavily during the run-up, but the feverish bout of bank lending already undertaken made such producers scarce. Jenks acknowledged that, "It was an unambitious [planter] who did not incur fresh indebtedness upon advances made to enable him to plant a larger acreage of cane."

The downdraft accelerated as participants realized they were over-committed. By the end of August, the price had dropped to 11 cents per pound and by mid-September it was eight cents per pound. These prices were well above wartime levels, but many of the loans in the system were predicated on the continuation of the higher prices of spring 1920. One estimate put the total of loans made assuming a sugar price of 15–20 cents per pound at $80 million.

The big financial problem created by this break in spot prices was therefore squarely focused on the Cuban banks. Their borrowers were not liquid, and the break in prices caused the transactions that fueled their working capital to freeze up as buyers often wanted to re-negotiate price or refused delivery.

The banking failures began with sugar prices still well above the prosperous wartime levels. On October 6, Banco Mercantil Americano gave its depositors four hours' warning before closing its doors. On October 8, Banco Internacional closed. President Menocal declared a banking moratorium on October 11, but everyone understood this to be a temporary measure.

The Cuban banking system was frozen, but sugar prices continued their descent. The underlying problems could not help but get worse by the day, whether the banks were open for business or not. An American emissary, General Enoch H. Crowder, arrived in January, and he began to hear from American banking representatives. (Credit conditions in the United States were also tight, for similar deflationary reasons.) A plan was approved to allow depositors to make partial withdrawals: 10% in February, 15% in March, 20% in April, etc.

It was a hopeless situation for many Cuban banks. On March 28, "Pote" was found hanged at his mansion in an apparent suicide; 10 days later, the bank he controlled, Banco Nacional, Cuba's flagship bank, closed. Banco Nacional's balance sheet touted some $81 million in assets of which at least one-fourth were deemed worthless, less than $2 million in cash and some $68 million in liabilities. A few weeks later, leading sugar speculator and Banco Nacional client Jose Lezama fled the country along with Banco Nacional's flamboyant president, W.A. Merchant, leaving behind some $25 million in borrowings from the bank.

Banco Nacional de Cuba

The price of sugar continued to spiral downward. It was four cents per pound in December 1920 and would spend most of 1921 between two and four cents. Sugar production remained at boom-time levels, but pricing was such that total revenue for the Cuban sugar industry in 1921 was back to 1915 levels. A total of some 18 Cuban banks failed in the first half of 1921, listing between them some $130 million in debts.

National City and Royal Bank of Canada soldiered on. "When the Cuban banks… were quite generally failing," wrote Chapman, "two great institutions, the National City Bank of New York and the Royal Bank of Canada, met every obligation." National City found it necessary to foreclose on some 60 sugar mills in 1921, and this—combined with the shuttering of so many Cuban banks—resulted in scathing newspaper editorials criticizing what they saw as the exploitative behavior of these "foreign" banks.

National City headquarters was no more pleased with their "exploitative" experience in Cuba than were the Cuban editorialists. Holding these assets on the National City balance sheet exposed the reckless nature of its Cuban operations. The company's official history labeled their Cuban foray "imprudent to the point of folly." The bank's president resigned.

Sugar prices generally stabilized before declining to less than three cents per pound later in the decade, and as they did, National City's sugar mills had trouble showing a profit of any sort. The American stock market, however, began a powerful upswing shortly after the Cuban debacle. The bull market in stocks permitted National City to issue some $25 million in new common shares in 1927. With some of the proceeds, National City's securities affiliate quietly purchased those Cuban sugar mills from the bank, thereby removing these very visible "slow loans" from the bank's balance sheet and saddling the securities affiliate with them, a distinction without a difference to National City shareholders.

These sugar mills became even less profitable in the 1930s with the widespread collapse in all commodity prices. Sugar declined to less than one cent per pound in 1932, and National City's mills spilled a good deal of red ink. It was not until 1945 that National City found a buyer for those mills; with the sale, their 25-year Cuban nightmare drew to a quiet close.

Cuba's commercial spirit never really recovered from this boom-and-bust experience. British historian and Cuba scholar Hugh Thomas wrote years later that Cuban "society had been built upon the dream of maximum production. Hence the origin of a whole series of fantasies which Fidel Castro, Cuba's first international political figure, would satisfy." $

Daniel C. Munson enjoys reading and writing financial and technical history. He is the author of the new book, Fiscal Follies: A Little Fun with Economics (and Economists).

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70 Years of Organized Labor Unions

The Emergence of the AFL-CIO

AFL-CIO strikers picketing in Laredo, Texas, June 1967.

By Michael A. Martorelli

This 12-year-old schoolboy easily met the seventh-grade requirement to memorize the meaning of the abbreviation: AFL-CIO stood for the American Federation of Labor—Congress of Industrial Organization. But he had no idea about the nature, purpose or history of that federation of labor unions that had been formalized less than a decade earlier. This year marks the 70th anniversary of that "union of unions" and an appropriate time to review the history of its component parts.

Early Organizing Efforts

Throughout the colonial and the federal eras, workers' rights to organize a union were under question since English criminal law considered a union's negotiating activities to be an unlawful conspiracy. The industrial revolution that emerged in the early 19th century forced Americans to confront a new relationship between an employer and his employees. The factories and mills that emerged in those years hired dozens of men and women. They enforced a relentless pace of work; maintained strict rules about dress, working hours and discipline; and paid little attention to the safety of the workplace.

Early labor reformers took President Andrew Jackson's cue and began to agitate for the right of workers to have more dignity and freedom from workplace abuses. Their efforts were aided in 1842 when the Massachusetts Supreme Judicial Court ruled that bargaining for benefits was legal if a union used legal means to achieve its goals. Unfortunately, the lingering effects of the Panic of 1837 meant that such newly empowered unions failed to prosper, and in many cases, to survive.

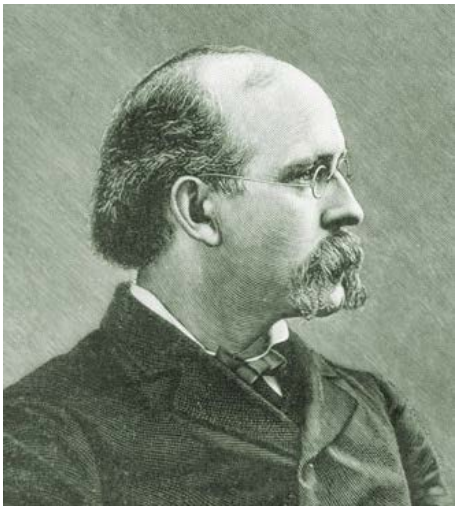
Umbrella Organizations

As the economy rebounded in the late 1840s, groups of skilled workers in a variety of trades formed local unions in more than a dozen large cities. Some locals began joining larger trade organizations that promised to spread their organizing activities beyond one city or region. In 1866, 77 delegates from almost as many unions met in Baltimore to attend the inaugural meeting of the National Labor Union (NLU), the first umbrella organization formed to advance the interests of all workers. The NLU was different from the smaller umbrella organizations formed in the 1850s. It included skilled and unskilled workers as well as farmers. This organization eschewed strikes, emphasized negotiations and arbitration and lobbied Congress to pass a law imposing an eight-hour work day. The data is sketchy, but historians believe the NLU grew to include between 200,000 and 400,000 members in more than a dozen states.

Successive leaders saw the NLU as more than a coalition of unions charged with promoting and supporting its members' interests. They viewed it as a social movement seeking a range of economic reforms and heeding the Jacksonian-era calls for workers to receive a greater share of the nation's productive output. The NLU focused more attention on political activities involving immigration and tariff policy than on specific actions to increase workers' wages and improve their working conditions. By 1871, it became apparent that the once-groundbreaking idea of having a labor union trying to achieve social aims was just not working. The NLU passed into history.

In 1869, a small group of tailors in Philadelphia formed a secret trade union they called the Noble and Holy Order of the Knights of Labor. Even in the teeth of the Panic of 1873, this organization also had an NLU-like objective of enhancing the standing of ordinary workers in American society. It welcomed skilled workers in many crafts, and it grew slowly and steadily, albeit quietly, throughout the decade. In 1879, its new Grand Master Terence Powderly led the drive to eliminate its secrecy provisions, shorten its name and adopt a new vision for what was thereafter simply called the Knights of Labor (KOL). This federation attracted members from unions all across the United States and Canada. Some viewed it as an umbrella organization focused solely on gaining higher wages and better working conditions for its members. Others considered it a fraternal organization collaborating

with employers to enhance the dignity and importance of workers while pursuing a social agenda like that formerly pursued by the NLU. Some local "assemblies" acted like traditional unions and organized strikes against certain employers; others preferred to work cooperatively with businesses to achieve their goals. For a time, the KOL was more successful than any prior labor group in representing the interests of the American working class. By 1886, membership certainly exceeded 730,000 and may have been closer to one million.



Terence Powderly, grand master of the Noble and Holy Order of the Knights of Labor, 1890.

CIO President Walter Reuther, head of the United Auto Workers (UAW), led the charge to remove many communist sympathizers from the CIO.

Focusing Only on Members' Interests

The diversity of membership and breadth of its objectives that had been responsible for the KOL's success were also related to its downfall. As early as 1883, it became apparent that the best organized craft unions, whose leaders wanted nothing more than higher wages and better working conditions, were beginning to grow disenchanted. Simultaneously, the leaders of assemblies interested in social reform were becoming annoyed with the strikes and sit-downs organized by many craft unions. Those craft locals believed they needed an umbrella organization of their own to protect and promote their interests. So, in 1881, more than 100 delegates from eight national unions, 11 city labor federations, 42 local craft unions and 46 local assemblies of the KOL formed the Federation of Organized Trades and Labor Unions (FOTLU) to represent only the bread-and-butter workplace interests of its members. Within a year, most assemblies of the KOL and most national unions left this new organization. They thought it had neither the financial resources nor the leadership to be effective. During the next several years, the KOL and FOTLU raided each other's locals, undercut each other's efforts with employers and otherwise worked against each other's interests within the organized labor community.

The internal divisions between local unions with differing objectives became more problematic in early 1886. In New York City, a dispute between the FOTLU-supported Cigarmakers International Union and the breakaway KOL-supported Cigarmakers' Progressive Union of America was the last straw. The Progressive Cigarmakers' Socialist Party members were too radical and politically active for the Cigarmakers International's members. In December, in Columbus, Ohio, delegates from more than a dozen trade unions voted to form a new umbrella alliance with the single goal of furthering the interests of working people. It would be called the American Federation of Labor (AFL). Almost immediately, most craft unions of the still-struggling FOTLU agreed to become part of this new organization.

It is not necessary to go into the details of the Southwest railroad strike that occurred in March 1886 or the Haymarket Square riot that occurred several months later. Suffice it to say that each was accompanied by serious violence on the part of striking or demonstrating workers; and, in each case, leaders and members of the KOL were linked to those troubles. That conduct led to an erosion of support for organized labor in general and the KOL in particular. Membership in the already fractured organization declined steadily and fell to less than 75,000 by 1893. The Panic of 1893 did not totally kill the KOL, but it was never again the national powerhouse it had once been.

Paradoxically, as the once powerful KOL entered a period of decline, the fledgling AFL began to experience a period of growth. President Samuel Gompers emphasized this organization's need to serve the interests of its local unions, not to agitate for social reforms. While the AFL initially included 138,000 members of the old FOTLU, it did not include another 117,000 members of unions representing iron and steel workers, railroad employees and other groups. But it grew faster than most of those non-FOTLU unions, particularly in the robust economic environment that characterized the early years of the 20th century. By 1904, unions in the AFL included more than 80% of the country's 2.1 million union members.

Mixed Opportunities and Challenges

The first quarter of the 20th century was a turbulent time for organized labor in general and the AFL in particular.

- Corporations in many manufacturing industries persuaded both state and local courts to issue injunctions against striking in a labor dispute, thus restraining workers from engaging in an activity long since determined to be perfectly legal. From 1914 to 1916, several congressional acts and Supreme Court decisions outlawed the use of such injunctions while both verifying and clarifying the legality of organized labor's activities.
- Corporations in industries such as retailing and insurance worked to forestall the potential impact of the trade union movement by organizing "company unions." They were not platforms for negotiating wages or benefits but vehicles for handling employee grievances, establishing health and safety standards and developing social and recreational activities.
- During the war years of 1914 to 1918, unions did their part to enhance the productivity of the economy by agreeing to minimize strikes. Corporations cooperated by voluntarily raising wages to recruit the necessary workforce to keep factories running smoothly. President Woodrow Wilson showed his respect and

support for organized labor by appointing AFL President Samuel Gompers to the Council of National Defense and the War Committee on Labor. AFL membership surged to more than four million.

- Following the 1918 armistice, unions sought to keep their recently won gains, even in the face of a downturn in the economy. In 1919, an unprecedently high 21% of the national labor force went on a series of more than 3,500 separate strikes against multiple industries. These actions caused a backlash against unionism. At the same time, courts issued a series of anti-union rulings peeling back some of the protections granted in the 1914–1916 years.
- The open shop "company union" movement gained more traction in the business-friendly environment of the 1920s. The rapid growth of manufacturing companies using assembly lines to produce automobiles, radios and household appliances meant that more workers were not "craftsmen," but semi-skilled or even unskilled men and women who could be taught to be functional members of a manufacturing firm. They were not particularly attractive candidates for trade union membership.
- And, finally, organized labor suffered in 1924 from both the death of Samuel Gompers and the loss of the AFL-endorsed Progressive Party presidential candidate Robert M. La Follette. AFL membership fell from 4.1 million in 1920 to less than 2.9 million in 1929, a year in which only 1% of the work force engaged in a strike.

A New Splinter Group

Under Samuel Gompers, the AFL had not been particularly interested in broadening its recruiting activities to include the semi-skilled and unskilled personnel working on assembly lines. Yet as far back as 1912, under its President John L. Lewis, the United Mine Workers (UMW) had been recruiting not just miners but also carpenters, electricians and others who worked in the coal mines. Similarly, the non-AFL-affiliated Amalgamated Clothing Workers of America (ACWA) under President Sidney Hillman was organizing workers of many types employed in the men's clothing trades. In 1919, some unions began lobbying the AFL's annual conventions to continue pursuing craft unionism while moving more aggressively into so-called industrial unionism. But President William Green led the resistance to those requests, even while more of the AFL's smaller unions began to recruit members outside their traditional narrowly defined crafts.

Bettmann

Philip Murray, president of the Congress of Industrial Organizations (CIO), delivers an opening address at the CIO's Fourth National Convention in Detroit on November 17, 1941.

In the early 1930s, workers in large mass production industries such as aluminum, automobiles and rubber began organizing themselves. Leaders representing many independent groups kept petitioning the AFL to formally adopt industrial unionism. They were even joined by some AFL members. But they all kept losing such requests at successive AFL annual conventions. Finally, the 1934 convention supported the formation of industrial unions—but only in certain industries. The dispute between the "crafters" and "industrialists" reached a peak during the 1935 annual convention when UMW President Lewis punched out Carpenters' Union President William L. Hutcheson. The next day, Lewis convened a meeting of several dozen supporters of industrial unionism. Three weeks later, they formed the Committee for Industrial Organization (CIO) within the AFL to promote that agenda. But AFL President Green did not recognize the legitimacy of that effort; indeed, he even called for the committee to be disbanded.

Workers in several industries—especially automobiles, steel and rubber—responded favorably to the CIO's organizing exertions. Within two years, its membership reached almost two million, while AFL membership declined to less than 3.2 million. In April 1938, the new organization formally broke away from the AFL; six months later, it renamed itself the Congress of Industrial Organization (CIO). During the next several years, the CIO added members in mass production industries throughout the Midwest and on the West Coast. At the same time, several AFL affiliates recognized the opportunities to build membership by extending their own recruiting efforts to those industries.

Over time, the two umbrella organizations each recruited both craft unions and industrial unions. But the CIO remained different from the AFL in a few key areas. It was a more centrally operated organization that did not give the local unions much autonomy in setting policies. It was led by several left-leaning officials who had some sympathy with socialist and even communist political philosophies that became more prevalent as the United States began developing a relationship with the Soviet Union. And it used a Political Action Committee (PAC) to arouse public opinion about issues and actively support selected political candidates.

UMW President Lewis was also head of the CIO. As president of its largest and most stable union, he dominated that larger organization and caused tension and discontent among other union

Samuel Gompers in the office of the American Federation of Labor, 1887.

leaders. CIO Co-Founder David Dubinsky took his International Ladies Garment Workers Union (ILGWU) out of the organization and rejoined the AFL. Lewis finally resigned as CIO president in late 1940; he was succeeded by Philip Murray.

Competition and Cooperation

Both the AFL and the CIO took no-strike pledges during World War II. And both did their part in enabling America to produce the material necessary to support the troops of the United States and its allies. They also expanded their membership. From 1939 to 1945, the AFL added about three million members, largely in the construction trades and the trucking industry, as well as both the department store and public service industries. The CIO recruited 2.1 million new members, especially in the automotive, steel, meatpacking and electrical industries.

In August 1945, America's unions began using strikes and sit-downs to gain much-delayed increases in wages and benefits. They achieved some of their goals. But they also faced a backlash in a scrambled economy coping with the expiration of war contracts, the conversion to peacetime production needs, the return to the labor force of 12 million servicemembers and the passage of the Taft-Hartley Act that limited unions' rights and powers. Communist elements throughout the country lost much of their influence in those early years of the Cold War. President Walter Reuther of the United Auto Workers (UAW) led the charge to remove many of them from the CIO. (The AFL had long refused to allow communist or socialist sympathizers to join its fraternity of workers.)

The early 1950s was a period of relatively calm labor-management relations. Corporate employers acknowledged unions' collective bargaining power; and the unions understood the limitations placed on their power by the Taft-Hartley Act, subsequent court decisions and overall social/political attitudes. About one-third of the country's labor force belonged to a union. The AFL continued to recruit semi-skilled workers in industrial settings. The CIO acknowledged the opportunities to enroll skilled workers such as tool and die makers and millwrights. The two organizations spent almost as much time and effort trying to make inroads in each other's jurisdictions as on trying to penetrate such unorganized sectors of the economy as agriculture and retail trade.

Fratricidal competition between the two umbrella groups lessened dramatically with the deaths in 1952 of both AFL President William Green and CIO President Philip Murray. Both men had serious personal animosities that had short-circuited some early calls for a recombination of their organizations. Their successors, George Meany (AFL) and Walter Reuther (CIO), soon recognized the futility of their unions' internecine competition and started to lay the groundwork for a potential merger. The AFL continued to grow, largely due to its successes in several white collar, government and service industries. The CIO was stagnant; it found it more difficult to expand into the relatively small employee groups that characterized those growing sectors.

In June 1954, 105 of the combined organizations' 140 unions signed a no-raiding agreement as a tangible first step towards a merger of the AFL and CIO. When the formal agreement to merge into the AFL-CIO was signed, it brought together the AFL's 10.6 million members and the CIO's 4.5 million; together they represented about 90% of the country's unionized workers.

Coda

During the next seven years before this schoolboy had to memorize its abbreviation, that "union of unions" actually lost two million members. The successful efforts of large corporations to offer very competitive salary and benefit packages blunted the further encroachment of organized labor into the American economy, as did rising concern about union corruption. The complete story of the AFL-CIO's evolution during the 1960s and beyond is one for another time. $

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FINANCIAL FRAUD

New Tactics, Old Strategies

By Samuel Stein

It is the spring of 1741. A man dressed in elegant church attire walks into a tavern in Princeton, New Jersey, and is recognized by the local Magistrate, John Stockton, as the famous Reverend John Rowland. The encounter would serve as a test run for the famous confidence "con" artist Tom Bell, who, over a 20-year career, used many different names and personas to defraud people across the colonies, using charm and an understanding of the local culture to play his victims out of possessions. By leveraging fancy clothes and other symbols of power and wealth, Bell pretended to be a gentleman, breaking into the inner circles of elites and exposing the fragility of trusting a man simply because of his dress and speech. Cybercriminals today use the same strategies that Bell and untold other shysters and scammers have used for centuries to identify and fleece their victims, but they've adapted their tactics for new technologies.

In the 18th and 19th centuries, conmen posed as revivalists to gain goodwill and trust. Posing as traveling preachers to bilk the pious, men like John Maffit and Elijah Skaggs rode into towns dressed to impress. Their eloquent speeches induced people to donate to them and not to God. To this day, the employees of religious organizations invoke trust in God to avoid routine audits and other verification checks. Before the advent of the telegraph network, slow communication and vast

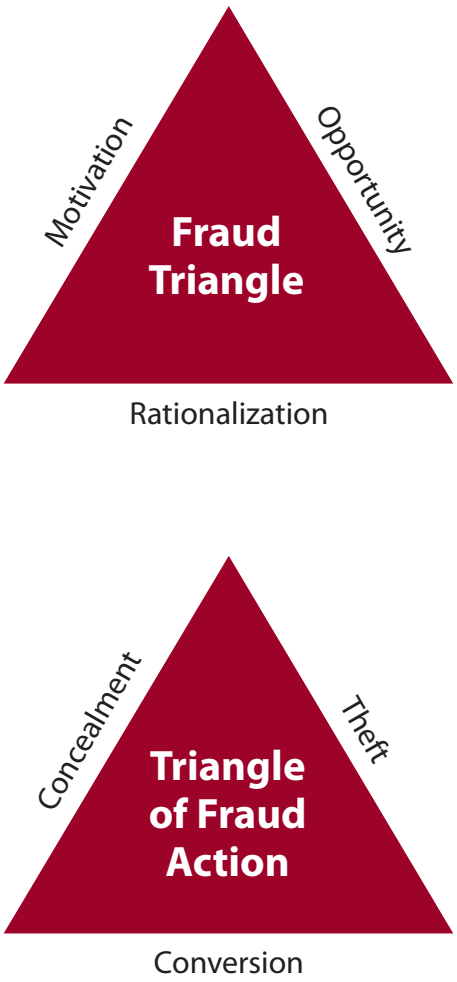
The 2010 Gulf oil rig explosion prompted a Chicago company, InferAgis, to create a fake device that claimed to rectify the damages of spilled oil. People's kindness was exploited, with InferAgis racking up nearly $20 million in profit from sympathy funds before the device was deemed useless.

distances conspired to render it difficult to nab conmen, who could travel as quickly as information. But crimes of confidence continued even as the telegraph network grew into the Victorian era internet. In his 1857 novel, *The Original Confidence Man*, Herman Melville shows that misplaced trust constitutes the necessary cause of all forms of financial fraud. Because trust shackles skepticism, people are inclined to believe one another, lowering the chance the fraud gets discovered.

Two triangles characterize financial fraud, or white-collar crime, as Edwin H. Sutherland christened it in the 1940s. The Fraud Triangle contains three vertices: opportunity, financial pressure (or motivation) and rationalization. Swindlers see opportunity when they discern a weakness in their intended target, sometimes called a mark, and calculate a low probability of being caught. Pressure develops when a fraudster seeks a larger income than he can legitimately earn.

Rationalization occurs when the conman convinces himself that his actions do not constitute malicious harm. The Triangle of Fraud Action, which consists of the fraudulent act, its concealment and conversion, characterizes the criminal's course of action. Concealment consists of stashing or destroying any evidence that may connect perpetrators to the crime. After concealment, conversion begins. The fraudster converts illegally acquired funds into legitimate businesses or assets through money laundering. The MICE acronym, which adds Ideology, Coercion and Ego to Monetary motive, also helps to explain financial fraud. Although the two-triangle fraud strategy maintains its relevance today, technologically sophisticated scammers employ new tactics.

Modern technology may make learning about and reporting financial fraud easier, but it also provides swindlers with new ways to employ strategies that have not changed from the 19th century. With the emergence of online meetings, swindlers have remained smooth talkers while expanding the realm of personas with fake backgrounds, presenting themselves as wealthier than they are in reality. To close deals, swindlers lie and employ other unethical tactics. The elegantly dressed fraudsters of the antebellum period and the smooth-talking cybercriminal sell the same thing: wealth. Wealth is a big driving force, as swindlers use the prospect of



happiness through wealth to entice their victims by offering enough money to generate interest, but not enough to arouse suspicions. They also present a wide range of profits, including the "average profits" of previous "customers." Fraudsters promote old scams shined up as new opportunities because targets are more likely to fall for a scheme they have never heard of. They also show victims "proven" results. Then, a swindler will admit risks but divert the victim's attention to the service's purported benefits. Swindlers also employ a sense of urgency, convincing the client that time is of the essence and offering a chance to join before the crowd learns of the opportunity. By advocating rapid enrollment, the swindler minimizes recruiting costs and limits the time the victim has to research the scheme.

Swindlers today, like those of yore, sometimes scout their victims to win their confidence. William Braithwaite and William Warren tricked shipping tycoon Sir Walter Cockerline into investing in a 1923 horse betting scheme in Monaco that cost Cockerline £23,000. By observing Cockerline's frequent high-roll gambling on horse races, Braithwaite and Warren gained valuable information about Cockerline's tendencies on which to build their pitch, ultimately settling on gentlemanly outfits and a slew of horse race knowledge to lure their victim into a deep sense of trust. Stuart Wood posed as a down-and-out submarine captain, visiting various English port towns, using the charity of the inhabitants to benefit himself. Wood dove deep into what stories the former service members and port goers would relate to and learned an accent, enabling him to craft an appearance and pitch targeting the folks he faced with personal conviction.

Braithwaite, Warren and Wood were criminal aristocrats who used intellectual and skilled ploys—rather than the violence and bloodshed of traditional criminals—carefully scouting their victims and creating witty baits to reel them in. In modern times, cybercriminals use a modified method of scouting victims, mainly on social media. Scammers get valuable information about a person's work, hobbies and movement patterns, allowing them to shadow a victim and create a personalized email that is more likely to gain a response than a generic one. Scammers will study an employee's Instagram or Facebook and pretend to be friends, offering interesting travel knowledge or discussing a shared hobby. This builds the victim's trust, as they believe they are connecting with a like-minded individual, resulting in lower awareness of possible fraud.

Scammers also scout in order to employ social engineering techniques more effectively. Social engineering has replaced the dress and speech ploys of historical scams to obtain victims' trust. The three principles of social engineering, or the manipulation of people, are social proof, scarcity and authority. Social proof refers to victims being more likely to accept offers believed to have been accepted by others; scarcity refers to victims usually wanting something exclusive and limited; and authority refers to victims as being more likely to comply with requests from persons in positions of power. Despite occurring mostly through telemarketing, these social engineering tactics attack the victim's conscience in a method similar to elegant speech and dress, gaining the great equalizer of all frauds: trust.

Utilizing the same charity methods as the devastating Chicago Fire of 1871 and the San Francisco Earthquake of 1906, the Stephan brothers in Texas created a fraudulent Salvation Army website to help victims of Hurricane Katrina that stole about $45,000 before being discovered.

Spear phishing emails are especially effective in stealing mass amounts of sensitive data and funds from companies, as scammers only need one employee to click a malware-infested link, hacking the company servers with little effort from the scammers themselves. Scammers use the trends acquired through social engineering to impersonate someone of authority that the employee already trusts, such as a boss or CEO. They also use conformity by telling the victim that other coworkers or friends have received and accepted the same invitation or data request. By combining authority with a sense of conformity, the swindler baits the employee into releasing sensitive company data without their knowledge. Help desks are especially vulnerable because they are there to help and usually fall for calls when the criminal poses as a tech serviceman or company official. Help desk employees are often taught to be friendly, but they have minimal security training, leading them to mindlessly accept a malware-infested email designed as a request for an item report or system log.

Swindlers utilize humanity's nature toward sympathy and kindness to steal the fortunes of good people. Natural disasters are commonly used to target people's sympathy towards the victims, exposing scams such as the 2010 Gulf oil rig explosion that prompted a Chicago company, InferAgis, to create a fake device that claimed to rectify the damages of spilled oil. People's kindness was exploited, with InferAgis racking up nearly $20 million in profit from sympathy funds before the device was deemed useless. Utilizing the same charity methods as the devastating Chicago Fire of 1871 and the San Francisco Earthquake of 1906, the Stephan brothers in Texas created a fraudulent Salvation Army website to help victims of Hurricane Katrina that stole about $45,000 before being discovered.

Con artists can also pose as the sympathetic ones, preying on people they know are under financial stress. They provide simple solutions to complex problems, often involving credit cards or mortgages through debt resolution scams and online payday loans. These financial assistance scams are

as popular as ever, keeping the tradition of debt resolution throughout history, but adapting to the age of online banking.

Despite cities turning into mega centers and swindlers growing in numbers, the victims of devastating fraud remain the same. In the 19th century, grafters targeted people with money and reputations to protect. Today, cybercriminals target the employees of corporations with money and reputational capital at stake, especially employees with access to sensitive data. Directors of telephone companies, bank managers, military officers and priests are targets with the power to infect company servers with phishing email links or create credibility for the fraudster and scheme.

No doubt Tom Bell chose Magistrate John Stockton carefully to facilitate his fraud, as Stockton had valuable influence within the community where Bell was committing his crimes. As the dawn of cyber criminals boomed, whaling—targeting only the highest and most powerful company members with phishing emails—caused multiple scandals and losses. Russian hackers, for example, targeted the 2016 Democratic election campaign Chairman John Podesta with a phishing link that gave them access to the valuable Clinton campaign emails, compromising sensitive information the Democrats did not want made public.

Fraudsters today, like those of yore, also target vulnerable people, like elderly persons suffering from cognitive decline or technophobia. As phone calls are the most common way scammers reach modern-day victims, generations who grew up without access to mass communication technology unknowingly fall victim to primitive scams. Scammers prefer older people due to their relatively lower ability to detect fraud compared to younger people. Criminals posing as healthcare providers sell elders useless medicines at high prices. Lottery and mortgage scams fool older people into giving up personal information in anticipation of a reward, allowing the scammer to hack into bank accounts and tax reports.

Baby boomers tend to trust strangers more readily than members of more recent generations trust them. Swindlers, who can even be family members or close friends, leverage their relationships to gain access to savings and trust accounts, alter wills and sign deeds. They can also tap into the retirement funds of the elderly, which are typically larger than those of younger generations, since they have been saving for a longer period of time. Swindlers pretending to be grandchildren have taken large sums from grandparents. Trust is abused with grandparents sending fortunes to people they believe are legitimate family members. Like patent medicines of old, fake anti-aging products meet a ready market among the aging and aged alike. Many victims do not know they have been fleeced or how to report the fraud to the relevant authorities.

Then as now, greed helped grafters to find suckers who thought they could get rich quick. In the 19th century, carnival gooseneck games lured men into betting on whether an odd or even number resulted from a feat of strength. The operator, though, determined the outcome and would bait the victim with easy wins to grow the pot until it had risen enough for the operator to win the rigged game. The get-rich-quick scams, so popular in the 19th century that entire newspapers were dedicated to promoting them, have turned mostly into promotion scams, with fake promoters claiming the victim has won a prize or providing the person with a unique financial opportunity. Requesting an upfront payment to receive the gift or personal information required for delivery, scammers can use people's blindness in the face of prizes to make a quick buck or fund a larger scam.

Bernie Madoff was not alone in targeting specific cohorts or communities, such as American Jews, when conducting his fraud. Modern-day scammers target distinct ethnic, racial, religious or professional communities due to their highly trust-based cultures. Swindlers leverage economic contractions—national, sectoral or regional—to exploit people desperate for work. For example, Fortune Hi-Tech Marketing (FHTM) was a 2001 scam promoted as a marketing opportunity. More than half a million members paid a small upfront fee to access purported products and services, gaining discounts and the rights to sell them. FHTM was ultimately discovered and stopped, with most products being pre-existing commodities such as Dish TV and tax bots.

Swindlers leverage anyone with lower levels of financial literacy, rendering victims unable to recognize unusually good propositions as scams. As traveling conmen preyed on primitive communication networks in the early 19th century, modern-day swindlers target groups like the Amish or unhoused, who are not embedded in modern communication systems. Despite major technological advancements, the victims and communities affected by fraud have remained much the same as they were 200 years ago.

It has been over 275 years since Tom Bell walked into the Princeton tavern with an eye for fraud. Since then, white-collar crime tactics have evolved to meet socioeconomic and technological changes while the underlying strategies have remained largely unchanged. As new forms of electronic transfers and communication develop, cyber-criminals will no doubt continue to create new tactics to steal money from victims while relying on greed, ignorance and other vulnerabilities as their predecessors have done for centuries. $

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RENAISSANCE BANKING

Early Italian Innovations in Accounting and Finance

By Ramon Vasconcellos

The practices of modern banking owe much to financial innovations either borne out of the Italian Renaissance or modified during the era. These adoptions, though not always the creations of the great banking families of Medici and Sforza, facilitated commerce across the continent while further enriching these dynasties. Italian merchants and overseas traders—recognizing the need for more streamlined measures necessary in the simplification of trade—indirectly devised improvements in banking. At the time, modernizations in terms of financial record-keeping, the use of bills of exchange, innovations adopted to circumvent Catholic Church prohibitions against charging interest and the expansion of bank credit established financial practices extant to global and domestic banking.

One such practice, the advent of "double-entry" bookkeeping, whose earliest adoptions are traceable to the late 13th century, became formalized in Genoa by 1340. There, an elected group of professionals responsible for the regulation of commercial affairs known as the "Masari of the Commune" kept annual records of cash transactions using the double-entry method. Merchants in Florence during the period also kept their ledgers in a double-entry format. Prior to these mid-14th century adoptions, parchment notations usually kept track of financial transactions with entries often written in paragraph form absent any chronological order. Most early recordings utilized Roman numerals with transactions identified in multiple currencies with little effort directed toward "balancing" the books.

However, by the mid-14th century, many Genoese, Florentine and Venetian merchants had implemented a system of "debits" and "credits," adjustments to accounts, for clarity in transactions. Entries were made applying a format called *all veneziana* (meaning "in the Venetian way") whereby credits were separated from debits on two folio sides facing each other when the account book was open. For keeping track of a series of transactions, or "accounts," merchants employed this tabular format known as the "T-account." Debit entries were placed on the left side of the ledger with credits recorded on the right. This practice would become the standardized method of recording business transactions fundamental to contemporary financial reporting.

The *official* standardization of the double-entry system and its use of debit and

Illustration of Piazza Santa Croce, Florence, Italy, 1688.

credit adjustments became commonplace with the publication of Luca Pacioli's *Summa de Arithmetic, Geometrica, Proportioni, et. Proportionalite (Summary of Arithmetic, Geometry, and Algebra).* A Franciscan monk and mathematician, Pacioli's work included instruction on the "Details of Accounting and Recording." Published in 1494, *Summa* was not only devoted to the study of mathematics, but it also emphasized the importance of how to record commercial transactions, along with a section solely devoted to bookkeeping. Financial historian Gary Giroux maintains that the popularity of *Summa*, particularly chapter nine concerning finance and bookkeeping, led to it becoming the "mercantile standard" of Europe at the time.

Another of the Italian Renaissance's contributions to modern banking and finance is the practice of using bills of exchange in trade arrangements. Simply put, these instruments guarantee payment on a loan contract at some date in the future. The agreement stipulates through a written order that one person requests another to pay a third party. During the 13th century, Italian merchants employed traveling agents, or "itinerants," to settle their accounts when engaging in off-site domestic trade, or with merchants in foreign countries. The typical Renaissance arrangement involving the usage of bills of exchange (not very different from its contemporary application) included several entities. Four merchants were generally engaged, with two located in the same city; they were the principals in the transaction. The other two participants functioned as agents.

One principal, interested in transferring money to his agent in a different locality for a purchase, would lend money to another principal. In return, the first principal would receive a bill of exchange payable in foreign currency where the transaction would occur. The second principal (the borrower) would then submit the bill to his agent residing in the city/town that finalized the transaction. There, the agent would pay the exact amount on a specified date to the agent of the first principal. As historian Francesca Trivellato has hypothesized, the framework practically eliminated the need to transport coins, extended short-term credit and circumvented proscriptions on the practice of usury. Likewise, bankers would sometimes sell bills of exchange in a different currency from the one backing the note to evade usury restrictions.

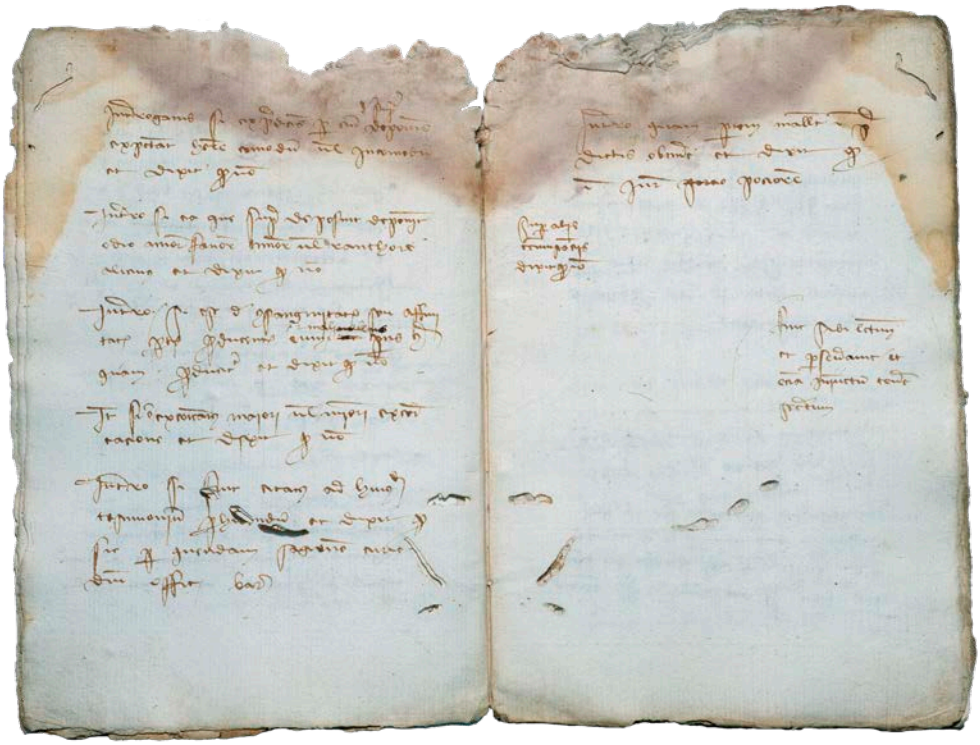

Photo by Prisma/UIG/Getty Images

Ledger showing the acceptance of bills of exchange among merchants of Barcelona and Florence, 1411.

As the volume of trade increased during the 14th through 16th centuries, companies established specific agents who acted not only on the behalf of merchants but bankers, too, serving as their principal representative in various towns. These representatives used bills as a means of payment to those who had purchased goods from their place of origin; hence, bills of exchange helped facilitate trade. Florence, for example, by the early 15th century, witnessed substantial economic growth both due to the liquidity of its cloth market and the availability of merchant bankers dealing in bills. Both during and after the Renaissance, Florentine bankers provided substantial levels of international credit when employing bills in the financing of trade.

The expansion of credit through what were then becoming more sophisticated

Gold ducat coin from the Florence mint, circa 1533–1536.

financial networks throughout Italy and abroad required uniformity in record keeping and reliance upon fiduciaries. Richard A. Goldthwaite, an economic historian of Renaissance Florence, observed that for these commercial relationships to be effective, a connection bound by "their mutual dependence upon commercial contracts" had to exist. According to Goldthwaite, what solidified that relationship was both accounting used to "keep a record of their complex relationships" and the bill of exchange. The latter given that it relied upon a "financial relation with a merchant in a different place" for the fixing of exchange rates at "various international centers."

Consequently, adherence to these practices allowed for the growth in banking establishments with branch offices throughout Europe and the Mediterranean. Records from this period show that Florence had between 100–150 men and companies operating as regional and/or international merchant bankers, although it is unclear whether they were individuals or financial institutions. However, substantial material supports the fact that branch networks of merchant banking establishments headquartered in Florence, by the late Middle Ages and into the Renaissance, staffed offices as far away as England, the Low Countries (Belgium and Holland), Italy, France and Turkey.

So widespread was the influence of the Florentines they established a financial lexicon in these geographic locations extant into the 21st century. For instance, many of the terms we associate with contemporary accounting and finance like *cassa*, which means cash; *giornale* for journal; and, specific to accounting, *creditore* and *debitore* for both creditor and debtor; were used extensively by Florentine bankers. Aside from Florence's growing commercial geographic presence, by the late 15th century, the city-state was said to have had 32 banks throughout the city with several controlled by the powerful Medici family. These banks—though not all exclusively controlled by the Medici—consisted of pawn shops (*banchi di pegno*), retail banks (*banchi a minuto*), money changers (*banchi in mercato*) and *banchi grossi*, or great banks.

Portrait of Giovanni de Medici, one of the most prominent members of the banking dynasty, who learned the trade from a banker's guild apprenticeship.

To establish oneself as a banker, the first step required an apprenticeship, which usually meant affiliation with the banker's "guild" (the Arte del Cambio) in Florence. Like the medieval guilds predating the Renaissance, the bankers, through their political affiliations, could limit the number of licensed merchant lenders, thus reducing potential competition. Those seeking apprenticeships not only had to pass an examination administered by the guild, but they also had to prove they were property owners and members in good standing within the community. Upon concluding what usually consisted of a five-to-seven-year contract, the apprentice would find employment as a clerk with a banking firm. There, he would serve the firm for at least three years before establishing himself as a private banker.

Private bankers often operated in public markets. Their offices housed a *banco* or bench (the origin of the word "bank") where they conducted their business. Guild membership required that transactions be initiated by the borrower, recorded by the lender, and once the transaction was complete, read aloud presumably so that both parties understood their responsibilities. So as not to confuse the public, other lenders like the *pegno* (pawn brokers) distinguished themselves by displaying a red cloth above the doors of their establishments. This denoted they engaged in the loaning of money on personal property; *pegno* were excluded from the guild because they charged interest. If the former apprentice/clerk sold jewels, accepted installment payments and held "tied" deposits paying annual interest (like a CD), he served as a *banchi a minuto*, or retail bank.

Mercato banks would exchange money, with a common medium of exchange at the time being the florin. The florin, a gold coin named after Florence, functioned almost like a reserve currency given its value during the era. If the private banker scaled his operation by taking on deposits and financing trade, he became a *banchi grossi* (great bank.) The Medici clan served in this capacity with Giovanni de Medici, one of the most prominent members of the banking dynasty, learning the trade when apprenticed under the banker's guild.

The Medici acted specifically as *banchi grossi* in that, unlike the other banks which often conducted their business upon the streets and public areas of Florence and various cities, the *grossi's* operations were all "in house." Meaning all business conducted by the Medici family functioned under one roof, or within the Palazzo Medici (Medici Palace). Considered to be the main source of Florence's wealth and power, the *grossi banks*, as described by Renaissance chronicler Benedetto Dei, "dealt in merchandise and exchange in all parts of the world." Furthermore, organizational practices implemented by the Medici family governing their banking arrangements allowed their organization to serve as a "going concern" for decades. Habits that contemporary accounting partnerships and banking institutions have practiced since the last century are rooted in the framework and policies of the Medici Bank.

For example, the Medici bank served as a confederation of partnerships and not merely one large entity. These autonomous units consisted of the headquarters in Florence, branches in different countries and various unit banks throughout Florence. In doing so, the structure

allowed for each bank to form its own partnership. Such independent entities functioned as separate legal units with their own capital requirements and individual set of ledgers.

Branch managers did not receive a salary but instead participated in the profits and losses based on their equity shares in the bank. Similarly, modern public accounting partnerships have kept these practices alive by allowing their partners a financial interest in their organizations. Furthermore, in some respects, the bank functioned like a holding company, for the Medici owned 50% of all their subsidiaries. This is comparable in many respects to the contemporary model whereby a subsidiary's outstanding equity is held by a larger owner/partner.

The *banchi di pegno*, or pawn shop, would extend credit secured by liens placed on personal assets such as jewelry. These extensions were granted with an interest fee attached to the loan, despite the Catholic Church's ban on usury (interest). Under church doctrine during the Middle Ages and through the Renaissance, charging interest for the extension of money was considered avarice; in essence, it was taking advantage of one's hardship. Circumventions of this restriction occurred, however, as borrowers and lenders understood the efficacy of such arrangements. Lenders began attaching interest rates for repayment along with the principal at the beginning of the contract and not the end, thus bypassing church prohibitions.

Antisemitism played a role too, since the Catholic Church often associated usury with Jewish pawn lenders. However, Jews were encouraged—and often welcomed—by provincial governments to lend in poorer Italian rural communities since, presumably, many Christian bankers found these markets less profitable. Nevertheless, restrictions on the amount of interest charged was determined by local authority.

Interestingly, the symbol of the three balls, or *roundels* in French, seen hanging above or adjacent to the signs of modern-day pawn dealers is said to have originated from medieval heraldry, or a coat of arms borne by a particular family. The *roundel* denoted the family dealt in money and was displayed on the arms of English, French and Italian families. According to historian Raymond de Roover, this included the arms of the Medici who—although they only dealt in merchant-banking and bills of exchange and not pawning—adopted as their family emblem the crest of the banker's guild of Florence.

As mentioned, bills of exchange evaded Church restrictions on usury and, furthermore, served in the creation of deposit banking. In essence, the practice of purchasing the bill at a discount from its face value reflected a risk. Given this circumstance, the bill may not have been honored when presented; thus, no interest was paid. Indirectly and in response to the risk of the client forfeiting his interest, merchant creditors required their clients deposit funds to cover this potentiality. These excess reserves could be lent—in foreign locales often not subject to Church jurisdiction—with interest, which, indirectly, furthered the expansion of deposit banking services.

The Medicis also served their clients by offering letters of credit—documents guaranteeing the payment of a customer's bill up to a certain amount for a defined period. For example, if a merchant purchased a letter from a Medici bank for payment to a seller in a different city, the bank received currency. Meaning, a Florentine merchant who bought the letter made payment to the local bank.

The bank then had an account payable due to a bank, say, in London, where the merchant would purchase his goods. When paid to the seller in London, the Medici bank could take advantage of the differences in the foreign exchange rates between Italian and English currencies, thereby profiting from the transaction. Present-day financial transactions rooted in this Medici innovation consist of commercial letters of credit for third-party beneficiaries and confirmed letters of credit between those bankers having correspondent relationships. Others, such as revolving and traveler's letters, are those automatically renewed for payment and for customers traveling abroad requiring drafts.

Contemporary accounting and financial services owe a debt of gratitude to the commercial acumen of the Renaissance financiers. Their intuition facilitated bookkeeping arrangements, simplified trade agreements and contributed to the development of international depository banking. We are both indebted to these innovators and enriched by their insight. $

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The 2010 Walmart Shareholders Meeting, held at the Bud Walton Arena in Fayetteville, Arkansas.

FROM BALLROOMS TO BROADBAND

Navigating the Changing Landscape of Shareholder Engagement

By Lawrence A. Cunningham and Stephanie Cuba

Over the past century, the dynamics of shareholder meetings, engagement and proposals have undergone a remarkable transformation, driven by technological advances, shifts in governance practices and changing shareholder expectations. What was once a passive, often perfunctory ritual has evolved into an increasingly strategic and multifaceted arena for corporate dialogue.

From the early days of small, in-person gatherings to the rise of digital meetings and private, off-stage interactions between institutional investors and corporate boards, the mechanisms for shareholder participation have continuously adapted to reflect broader societal and economic shifts. The burgeoning role of shareholder proposals in influencing corporate policies, particularly on issues like environmental responsibility and social governance, further underscores the changing nature of corporate governance.

In this context, shareholder meetings are no longer just a venue for formal voting but are increasingly part of a broader, complex dialogue that spans face-to-face meetings, virtual platforms and private negotiations. The transformation of shareholder engagement is not without its challenges, as it raises important questions about transparency, access to information and the shape of shareholder rights.

The Transformation of Shareholder Meetings

The evolution of corporate annual meetings is a mirror reflecting the societal and technological shifts of the past century. In 1933, ExxonMobil's (then Standard Oil of New Jersey) annual meeting hosted a mere five attendees, emblematic of the era's disengaged shareholder culture. By contrast, modern meetings can attract thousands, both in person and virtually, underscoring the dramatic transformation of shareholder engagement.

Mid-20th-century meetings were largely perfunctory, with passive audiences and a lack of direct interaction. Visionaries like the Gilbert brothers

challenged this status quo, championing shareholder rights and "people's capitalism." By the 1960s, meetings became livelier forums for discussion, yet their effectiveness was questioned, prompting calls for innovations like voting by mail. From 1980 to 2010, the rise of institutional ownership—pension funds, mutual funds and the like—shifted the power dynamic away from individual shareholders, yet the annual meeting persisted as a symbolic gathering point.

The spectacle of meetings such as Berkshire Hathaway's or Walmart's annual events—drawing tens of thousands—epitomized the enduring allure of face-to-face interactions between shareholders and management. However, the digital revolution introduced new dynamics. By 2005, companies like Cisco Systems were integrating live digital feeds, and by 2016, hybrid models—like Berkshire's live-streamed in-person meeting—were taking shape.

The COVID-19 pandemic catalyzed an industry-wide pivot. Virtual-only meetings became essential as legal frameworks adapted to enable digital shareholder interaction. Companies reported record participation, thanks to the convenience and accessibility of virtual formats. Advocates tout cost efficiency, broader reach and inclusivity, especially for institutional investors managing diverse portfolios.

Yet, virtual-only meetings are not without detractors. Critics highlight the loss of spontaneous, unmoderated exchanges and worry that digital platforms allow management to sidestep tough questions. To counteract these challenges, companies have adopted strategies like pre-submitting questions and independent moderation to maintain engagement. Hybrid models, blending physical presence with virtual accessibility, are emerging as the gold standard—combining the personal connection of traditional meetings with the inclusivity of modern technology.

As companies refine these formats, the hybrid approach seems poised to dominate, ensuring annual meetings remain meaningful forums for shareholder dialogue in an increasingly digital world.

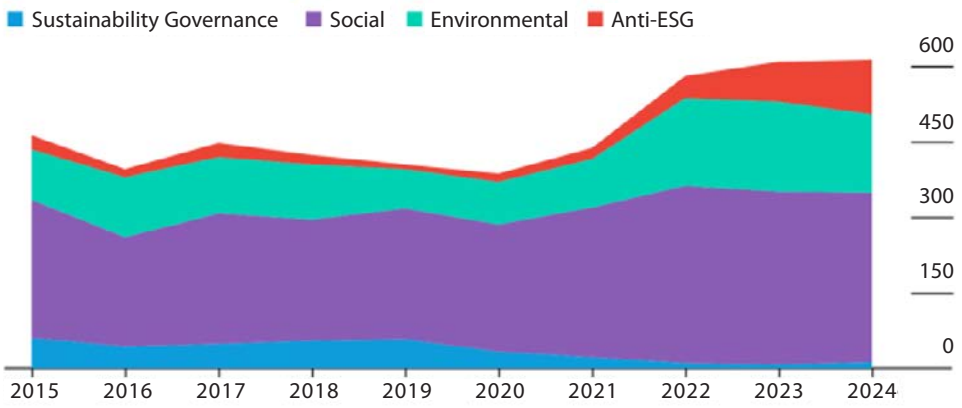
Shareholder Engagement: Beyond the Meeting Room

As shareholder meetings have evolved with technological advancements and changes in governance dynamics, so too has the landscape of shareholder engagement. A notable development in this shift has been the increasing frequency of private interactions between institutional investors and corporate boards, particularly since 2010. These private meetings, often focused on critical issues such as executive compensation, governance practices and long-term strategic direction, have reduced the traditional demand for large, public-facing annual meetings.

With institutional investors now controlling a significant majority of corporate equity, the emphasis on the annual meeting as the primary forum for shareholder dialogue has diminished. In many ways, this reflects a broader trend: shareholder activism, especially in areas like ESG (Environmental, Social and Governance), has contributed to the perception that annual meetings may no longer be the most effective means of engaging shareholders. Instead, private discussions between institutional investors and management have become more commonplace, facilitating more direct and frequent exchanges on issues of concern.

However, this shift raises important questions about transparency. While private engagements allow for deeper discussions, they also pose risks when it comes to selective disclosure. Regulation Fair Disclosure (Reg FD), enacted in the early 2000s, was designed to ensure that all shareholders had equal access to material non-public information. As a result, even though institutional investors may have more frequent contact with management, the information shared in these settings is often limited to what is already publicly available, reducing the potential for these private dialogues to lead to more impactful or exclusive insights.

Investors' Environmental, Social Bids Rise
Number of anti-ESG proposals also increase, peak in 2024



Source: ISS-Corporate
Note: 12-month periods from July 2015 to June 2024
Bloomberg Law

Shareholder proposals have become an increasingly common and contentious means of influencing corporate policy.

The Rise of Shareholder Proposals: From Stagecraft to Strategy

If the annual shareholder meeting has evolved into a digital forum, shareholder proposals have undergone an even more profound transformation, shifting from public confrontation to strategic negotiation.

Historically, annual meetings were critical venues for debating and voting on shareholder proposals. Rooted in state laws allowing proposals with a "proper corporate purpose" and bolstered by SEC rules since the 1940s, these proposals often addressed not just corporate governance but broader social concerns. In the mid-20th century, activists used meetings as public stages to spotlight causes ranging from racial equity to environmental protection. The direct, face-to-face confrontations between activists and executives generated headlines and public pressure, with companies frequently resisting such proposals to avoid negative attention.

Over time, the landscape shifted. From the 1980s onward, proposals became potent tools for shaping public debate, not just within the meeting but through the broader media ecosystem. By the 2000s,

Welcome sign at the 2016 Berkshire Hathaway Shareholders Meeting.

the velocity of information, the rise of social media and the fragmentation of traditional news outlets diminished the annual meeting's role as a central stage. Activists increasingly relied on the shareholder proposal process itself—not the meeting—to gain concessions and achieve their objectives. Settlements with management often preempted the need for a public vote, with proponents declaring victory even with minimal shareholder support.

The sheer volume of proposals skyrocketed, particularly on hot-button issues, such as certain ESG topics. Proposals on emissions reduction, hiring practices and supply chain transparency became flashpoints in political and economic debates. Activists leveraged pre-meeting declarations by index funds and proxy advisors to sway outcomes, with powerful institutions signaling their votes and threatening to withhold support for directors who opposed popular proposals.

Despite their increased use, the growing trend of low approval rates for activist proposals—sometimes under 20%—raises questions about their long-term impact. For companies, this dynamic underscores the importance of carefully aligning activist strategies with business needs and shareholder interests. Proposals often bring visibility to important public policies, but they can also distract corporate directors and officers from focusing on their business. Achieving a balance is essential.

As the nature of shareholder meetings, engagement and proposals continues to evolve, one thing remains clear: corporate governance is at a crossroads. The shift from in-person gatherings to hybrid and digital platforms has expanded participation, making meetings more accessible; yet, it has also introduced new complexities, particularly around transparency and direct interaction. The rise of private shareholder engagements, particularly with institutional investors, further shifts the balance, leaving companies to grapple with the tension between deeper, more frequent conversations and the need for open, inclusive forums.

The growing prominence of shareholder proposals—especially for and against specific ESG topics—signals that while the traditional meeting format may be losing its centrality, shareholder influence remains strong. Corporate directors must navigate this evolving landscape, balancing the push for broader social responsibility with the core duty to focus on shareholder interests and long-term value. Achieving that balance will define the future of corporate governance.

In the end, the future of shareholder meetings and proposals will not be shaped by any single format or issue, but by the ongoing dialogue between companies and their shareholders—a dialogue that, when balanced, can drive corporate success while addressing the pressing issues of our time. $

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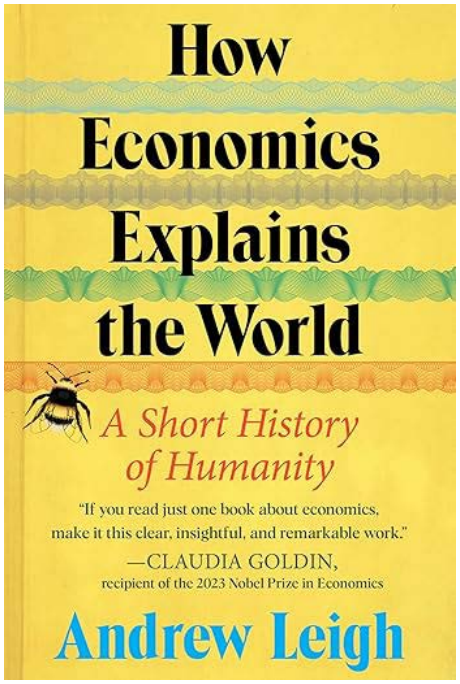

How Economics Explains the World: A Short History of Humanity
By Andrew Leigh
Mariner Books
228 pages with photos, notes and index
$26.00

As I write this, large scale, across-the-board tariffs are back in the discussion of US economic policy. Whether they will be levied or not remains to be seen, but for many economists, the deleterious effects of tariffs are crystal clear. They raise prices for consumers, while doing little to spur long-term innovation and growth.

So how is it that another—but apparently more influential—group of economists holds different views? If economics is a science, where are the immutable laws that govern the interactions and outputs of economic activity? Where are the formulas that will show how fiscal and monetary actions result in a given outcome? Absent these, how can economists argue that they deserve to be heard at all?

Dr. Andrew Leigh, an Australian politician, economist and professor, in his book, *How Economics Explains the World: A Short History of Humanity*, wants us to understand how economists view the world. His title is rather grand—humanity is a big topic, after all—but even for the cognoscenti of the financial history community, it is useful sometimes to re-calibrate our understanding of economics. For Professor Leigh, economics is a social science that "studies how people maximise [sic] their wellbeing in the face of scarcity." In less than 200 pages, he gives us a tour of history from an economic perspective and ends up in 2025, with a discussion of current issues. It is a fun read, and worth the effort, particularly for those who might be looking for a way to begin understanding the field.

Leigh first sets out the three themes that he argues are crucial to grasping how we got where we are today: incentives, specialization and innovation. He returns to these motifs throughout the book.

Geography was crucial to the earliest efforts of people to organize the acquisition and exploitation of needed resources. Settlers in the Indus Valley (c. 3300–1300 BCE) made advances in farming based upon leveraging the plough to cultivate greater acreage. Early migration was motivated by people seeking to employ farming tools in more fertile, higher-yielding lands. According to Leigh, this pattern was more east-west than north-south. Trade increased as migratory patterns accelerated. Money was a product of innovation, making economic interactions easier than bartering.

Improvements in transportation like the sail in the 1600s expanded the arena in which economic activity was conducted. This brought more wealth and well-being to most. For others, however, not so much, writes Leigh. Instead of investing in new geographies, in some cases it became more attractive to extract and export resources. Human chattel from Africa could be acquired for very little, and traded elsewhere for more. Many economies today still have what is termed "the resource curse," in that they are rich in oil or minerals but lack a way to turn this advantage into lasting progress.

We are quickly propelled into the Industrial Revolution of the 1700s and 1800s. New innovation, longer life spans and greater mobility all contributed to rising wealth. This, in turn, led to not just more investment, but new modes of spurring investment and spreading risk, like insurance and stock companies.

Here is where Leigh begins to introduce the names and thoughts of "modern" economists we all know, or should know. Of course, he starts with the big man himself, Adam Smith. John Stuart Mill, Jeremy Bentham and Thomas Malthus make appearances. He rightly sources most of their work in the study of philosophy. As we arrive in the 20th century—with Marshall, Keynes, Hayek, Samuelson, Friedman, etc.—philosophical approaches are augmented with mathematics and econometrics. Data and statistical analysis become the touchstone of modern economics.

After discussing the re-ordering of the global economy post-WW II, and the stunning economic progress in some economies after the war, Leigh touches on developments in other countries, such as China, India and Cuba. Each of these economies operated with their own, very distinct, speeds and priorities. The last several chapters bring us to the recent past. These are more conceptual than historical. The dominance of market-based thinking, central bank influence, inflation, inequality and climate change all get their due.

While I earlier called the book "a fun read," don't get the wrong impression—there are a lot of complicated ideas covered quickly. It is an excellent stepping stone for readers to go further on their own. There are some sidebars throughout the book—creativity, the Medicis, AI, gender gap, etc.—which are interesting and break up the narrative. As an aside, Thomas Piketty gets a mention, Karl Marx does not. I guess that's capitalism in the 21st century.

Economists have generally been thought to have big egos. Professor Leigh doesn't seem to be in that camp. He acknowledges how difficult forecasting can be, and that economists don't have the sure answers we seek as we look into the future. He is a hopeful and helpful writer, positing that economics can help us "live better lives." And, by the way, he doesn't like tariffs. $

James P. Prout is a lawyer with more than 30 years of capital market experience. He now is a consultant to some of the world's biggest public companies. He can be reached at jpprout@gmail.com.

WINTER 2025 EVENTS AND PROGRAMS

MU$EUM OF AMERICAN FINANCE

Feb 27 Virtual Event: Justene Hill Edwards on *Savings and Trust: The Rise and Betrayal of the Freedman's Bank.* Talk followed by Q&A. 12:00–1:00 p.m. Registration required. In partnership with the Fordham University Gabelli Center and CFA Society NY.

Mar 6 2025 MoAF Gala honoring Richard A. Gephardt and Peter S. Lynch, with a tribute to Arthur D. Cashin, Jr. 5:30 p.m. VIP reception; 6:00 p.m. cocktails; 7:00 p.m. dinner. Ziegfeld Ballroom, 141 West 54th Street, NYC.

Mar 12 In-Person Event: "The Fed through Panic and Prosperity: A Fireside Chat with James Grant and Richard Sylla." 6:00–7:30 p.m. Registration required. Location: Fordham University, McNally Amphitheatre, 140 West 62nd Street, NYC.

Mar 27 Virtual Event: Donald Chew, Jr., in conversation with Marty Fridson, on *The Making of Modern Corporate Finance: A History of the Ideas and How They Help Build the Wealth of Nations.* Talk followed by Q&A. 12:00–1:00 p.m. Registration required. In partnership with the Fordham University Gabelli Center and CFA Society NY.

Apr 1 Virtual Event: Edward Fishman on *Chokepoints: American Power in the Age of Economic Warfare.* Talk followed by Q&A. 12:00–1:00 p.m. Registration required. In partnership with the Fordham University Gabelli Center and CFA Society NY.

For more information, a complete list of scheduled events or to register online, visit www.moaf.org/events.

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TRIVIA QUIZ

HOW MUCH DO YOU KNOW ABOUT FINANCIAL HISTORY?

1. What company attracted a mere five shareholders to its annual meeting in 1933?

2. What commodity experienced a global surge and collapse in the period of 1915–1920?

3. What female financier's estate—estimated to be at least $100 million (roughly $1.2 billion in 2025 dollars)—was distributed to 63 institutions upon the death of her children?

4. What New York attorney went on to become one of Wall Street's first Black female executives in the 1980s?

5. What does AFL-CIO stand for?

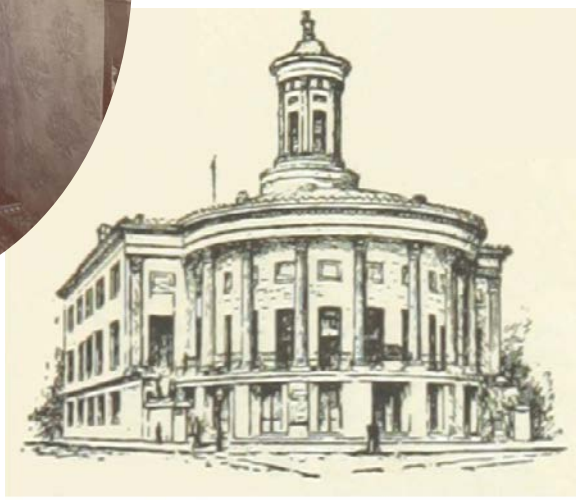
6. What brothers were vocal proponents of shareholder rights and "people's capitalism" at annual shareholder meetings in the mid-20th century?

7. What two Italian families are known as the "great banking families" of the Renaissance?

8. What two companies merged in 1959 to create Berkshire Hathaway?

9. What was the biggest IPO in the United States in 2024?

10. What is the oldest US stock exchange, founded in 1790?



1. ExxonMobil (then Standard Oil of New Jersey) **2.** Sugar **3.** Hetty Green **4.** Marianne Spraggins **5.** American Federation of Labor—Congress of Industrial Organization **6.** The Gilbert brothers **7.** The Medici and Sforza families **8.** Hathaway Manufacturing and Berkshire Fine Spinning Associates **9.** Lineage **10.** The Philadelphia Stock Exchange

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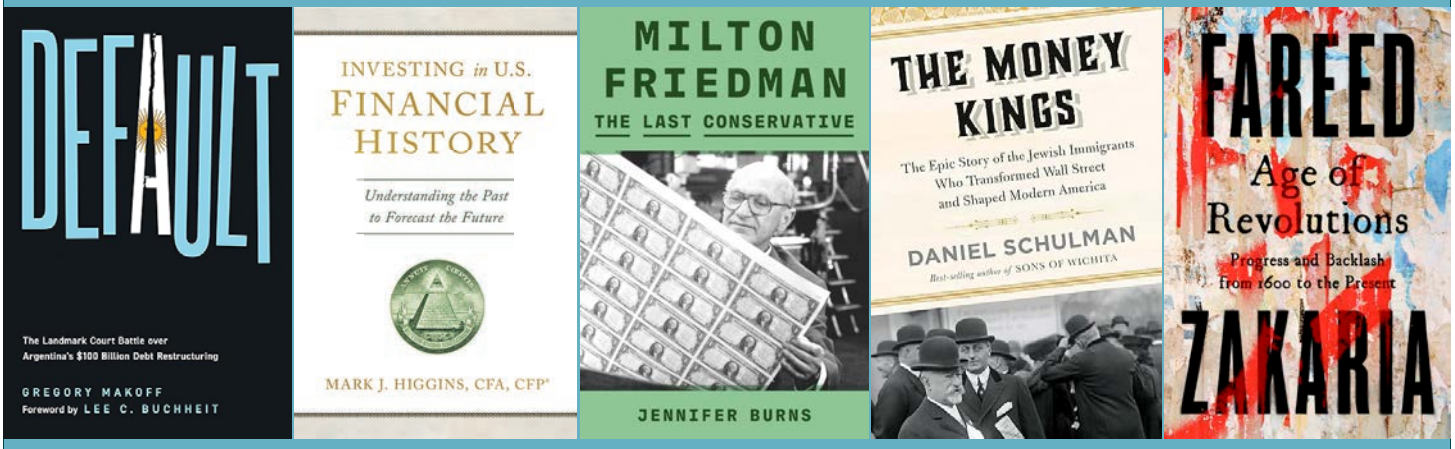
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